APPENDIX A — OPINION OF THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT FILED MARCH 29, 2007 AMENDED MAY 31, 2007

UNITED STATES COURT OF APPEALS NINTH CIRCUIT

Nos. 04-57143, 04-57207.

PERFECT 10, INC., a California corporation,

Plaintiff-Appellant,

v.

CCBILL LLC, a corporation; Cavecreek Wholesale Internet Exchange, a corporation d/b/a CWIE LLC,

Defendants-Appellees,

and

Netpass Systems Inc., a corporation,

Defendant.

Perfect 10, Inc., a California corporation,

Plaintiff-Appellee,

v.

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CCBill LLC, a corporation; Cavecreek Wholesale Internet Exchange, a corporation d/b/a CWIE LLC,

Defendants-Appellants,

Netpass Systems Inc., a corporation,

Defendant.

Argued and Submitted Dec. 4, 2006.
Filed March 29, 2007.
Amended May 31, 2007.

Appeal from the United States District Court for the Central District of California; Lourdes G. Baird, District Judge, Presiding. D.C. Nos. CV-02-07624-LGB, CV-02-07624-LGB.

Before: STEPHEN REINHARDT, ALEX KOZINSKI, MILAN D. SMITH, JR., Circuit Judges.

AMENDED OPINION

MILAN D. SMITH, JR., Circuit Judge.

Perfect 10, the publisher of an adult entertainment magazine and the owner of the subscription website perfect10.com, alleges that CCBill and CWIE violated copyright, trademark, and state unfair competition, false advertising and right of publicity laws by providing services to websites that posted images stolen from Perfect 10's magazine and website. Perfect 10 appeals the district court's finding that CCBill and CWIE qualified for certain statutory safe harbors from copyright infringement liability under the

Digital Millennium Copyright Act ("DMCA"), 17 U.S.C. § 512, and that CCBill and CWIE were immune from liability for state law unfair competition and false advertising claims based on the Communications Decency Act ("CDA"), 47 U.S.C. § 230(c)(1). CCBill and CWIE cross-appeal, arguing that the district court erred in holding that the CDA does not provide immunity against Perfect 10's right of publicity claims and in denying their requests for costs and attorney's fees under the Copyright Act.

We have jurisdiction pursuant to 28 U.S.C. § 1291. We affirm in part, reverse in part, and remand.

BACKGROUND

Perfect 10 is the publisher of the eponymous adult entertainment magazine and the owner of the website, perfect10.com. Perfect10.com is a subscription site where consumers pay a membership fee in order to gain access to content on the website. Perfect 10 has created approximately 5,000 images of models for display in its website and magazine. Many of the models in these images have signed releases assigning their rights of publicity to Perfect 10. Perfect 10 also holds registered U.S. copyrights for these images and owns several related, registered trademark and service marks.

CWIE provides webhosting and related Internet connectivity services to the owners of various websites. For a fee, CWIE provides "ping, power, and pipe," services to their clients by ensuring the "box" or server is on, ensuring power is provided to the server and connecting the client's

service or website to the Internet via a data center connection. CCBill allows consumers to use credit cards or checks to pay for subscriptions or memberships to e-commerce venues.

Beginning August 10, 2001, Perfect 10 sent letters and emails to CCBill and CWIE stating that CCBill and CWIE clients were infringing Perfect 10 copyrights. Perfect 10 directed these communications to Thomas A. Fisher, the designated agent to receive notices of infringement. Fisher is also the Executive Vice-President of both CCBill and CWIE. Representatives of celebrities who are not parties to this lawsuit also sent notices of infringement to CCBill and CWIE. On September 30, 2002, Perfect 10 filed the present action alleging copyright and trademark violations, state law claims of violation of right of publicity, unfair competition, false and misleading advertising, as well as RICO claims.

STANDARDS OF REVIEW

We review a district court's grant of summary judgment de novo. *Rossi v. Motion Picture Ass'n of Am. Inc.*, 391 F.3d 1000, 1002 (9th Cir. 2004). "Viewing the evidence in the light most favorable to the nonmoving party, we must determine whether there are any genuine issues of material fact and whether the district court correctly applied the relevant substantive law." *Leever v. Carson City*, 360 F.3d 1014, 1017 (9th Cir. 2004). The district court's interpretations of the Copyright Act are also reviewed de novo. *Ellison v. Robertson*, 357 F.3d 1072, 1076 (9th Cir. 2004).

We review a district court's decision to grant or deny attorney's fees under the Copyright Act for abuse of

discretion. *Columbia Pictures Television, Inc. v. Krypton Broad. of Birmingham, Inc.*, 259 F.3d 1186, 1197 (9th Cir. 2001).

DISCUSSION

I. SECTION 512 SAFE HARBORS

The DMCA established certain safe harbors to "provide protection from liability for: (1) transitory digital network communications; (2) system caching; (3) information residing on systems or networks at the direction of users; and (4) information location tools." *Ellison*, 357 F.3d at 1076-77 (citing 17 U.S.C. §§ 512(a)-(d)) (footnotes omitted). These safe harbors limit liability but "do not affect the question of ultimate liability under the various doctrines of direct, vicarious, and contributory liability," *Perfect 10, Inc. v. Cybernet Ventures, Inc.*, 213 F.Supp.2d 1146, 1174 (C.D.Cal.2002) (citing H.R. Rep. 105-551(II), at 50 (1998) ("H.R. Rep.")),[1] and "nothing in the language of § 512 indicates that the limitation on liability described therein is exclusive." *CoStar Group, Inc. v. LoopNet, Inc.*, 373 F.3d 544, 552 (4th Cir. 2004).

A. Reasonably Implemented Policy: § 512(i)(1)(A)

To be eligible for any of the four safe harbors at §§ 512(a)-(d), a service provider must first meet the threshold

1. The relevant portions of H.R. Rep. 105-551(II) (1998) and S. Rep. 105-190 (1998) are largely identical. We cite to H.R. Rep. for purposes of consistency.

conditions set out in § 512(i), including the requirement that the service provider:

> [H]as adopted and reasonably implemented, and informs subscribers and account holders of the service provider's system or network of, a policy that provides for the termination in appropriate circumstances of subscribers and account holders of the service provider's system or network who are repeat infringers.

Section 512(i)(1)(A); *Ellison*, 357 F.3d at 1080.

The statute does not define "reasonably implemented." We hold that a service provider "implements" a policy if it has a working notification system, a procedure for dealing with DMCA-compliant notifications, and if it does not actively prevent copyright owners from collecting information needed to issue such notifications. *Ellison*, 357 F.3d at 1080 (working notification system required); *Corbis Corp. v. Amazon.com, Inc.*, 351 F.Supp.2d 1090, 1102-03 (W.D.Wash.2004) (must adopt procedure for dealing with notifications); *In re Aimster Copyright Litig.*, 252 F.Supp.2d 634, 659 (N.D.Ill.2002) (policy not implemented if service provider actively blocks collection of information). The statute permits service providers to implement a variety of procedures, but an implementation is reasonable if, under "appropriate circumstances," the service provider terminates users who repeatedly or blatantly infringe copyright. *See* 17 U.S.C. § 512(i); *Corbis*, 351 F.Supp.2d at 1102.

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1. "Implementation"

Perfect 10 argues that there is a genuine issue of material fact whether CCBill and CWIE prevented the implementation of their policies by failing to keep track of repeatedly infringing webmasters. The district court found that there was not, and we agree.

In *Ellison*, Stephen Robertson posted copies of Harlan Ellison's copyrighted short stories on Internet newsgroups available through USENET servers. 357 F.3d at 1075. Ellison asserted that America Online, Inc. ("AOL") had infringed his copyright by providing access to the USENET servers. *Id.* Based on evidence that AOL changed its contact email address for copyright infringement notices from copyright@ aol. com to aolcopyright@ aol. com in the fall of 1999, but neglected to register the change with the U.S. Copyright Office until April 2000, we held that the district court erred in concluding on summary judgment that AOL satisfied the requirements of § 512(i). *Id.* at 1077. Even though Ellison did not learn of the infringing activity until after AOL had notified the U.S. Copyright Office of the correct email address, we found that "AOL allowed notices of potential copyright infringement to fall into a vacuum and go unheeded; that fact is sufficient for a reasonable jury to conclude that AOL had not reasonably implemented its policy against repeat infringers." *Id.* at 1080.

Similarly, the *Aimster* cases hold that a repeat infringer policy is not implemented under § 512(i)(1)(A) if the service provider prevents copyright holders from providing DMCA-compliant notifications. In *Aimster*, the district court held

that Aimster did not reasonably implement its stated repeat infringer policy because "the encryption on Aimster renders it impossible to ascertain which users are transferring which files." 252 F.Supp.2d at 659. The court found that "[a]dopting a repeat infringer policy and then purposely eviscerating any hope that such a policy could ever be carried out is not an 'implementation' as required by § 512(i)." *Id.* The Seventh Circuit affirmed, finding that Aimster did not meet the requirement of § 512(i)(1)(A) because, in part, "by teaching its users how to encrypt their unlawful distribution of copyrighted materials [Aimster] disabled itself from doing anything to prevent infringement." *In re Aimster Copyright Litig.*, 334 F.3d 643, 655 (7th Cir. 2003).

Based on *Ellison* and the *Aimster* cases, a substantial failure to record webmasters associated with allegedly infringing websites may raise a genuine issue of material fact as to the implementation of the service provider's repeat infringer policy. In this case, however, the record does not reflect such a failure. Perfect 10 references a single page from CCBill and CWIE's "DMCA Log." Although this page shows some empty fields in the spreadsheet column labeled "Webmasters [sic] Name," Perfect 10's conclusion that the DMCA Log thus "does not reflect any effort to track notices of infringements received by webmaster identity" is not supported by evidence in the record. The remainder of the DMCA Log indicates that the email address and/or name of the webmaster is routinely recorded in CCBill and CWIE's DMCA Log. CCBill's interrogatory responses dated December 11, 2003 also contain a chart indicating that CCBill and CWIE largely kept track of the webmaster for each website.

Unlike *Ellison* and *Aimster*, where the changed email address and the encryption system ensured that *no* information about the repeat infringer was collected, it is undisputed that CCBill and CWIE recorded most webmasters. The district court properly concluded that the DMCA Log does not raise a triable issue of fact that CCBill and CWIE did not implement a repeat infringer policy.

2. *Reasonableness*

A service provider reasonably implements its repeat infringer policy if it terminates users when "appropriate." *See Corbis*, 351 F.Supp.2d at 1104. Section 512(i) itself does not clarify when it is "appropriate" for service providers to act. It only requires that a service provider terminate users who are "repeat infringers."

To identify and terminate repeat infringers, a service provider need not affirmatively police its users for evidence of repeat infringement. Section 512(c) states that "[a] service provider shall not be liable for monetary relief" if it does not know of infringement. A service provider is also not liable under § 512(c) if it acts "expeditiously to remove, or disable access to, the material" when it (1) has actual knowledge, (2) is aware of facts or circumstances from which infringing activity is apparent, or (3) has received notification of claimed infringement meeting the requirements of § 512(c)(3). Were we to require service providers to terminate users under circumstances other than those specified in § 512(c), § 512(c)'s grant of immunity would be meaningless. This interpretation of the statute is supported by legislative history.

See H.R. Rep., at 61 (Section 512(i) is not intended "to undermine the . . . knowledge standard of [§ 512](c).").

Perfect 10 claims that CCBill and CWIE unreasonably implemented their repeat infringer policies by tolerating flagrant and blatant copyright infringement by its users despite notice of infringement from Perfect 10, notice of infringement from copyright holders not a party to this litigation and "red flags" of copyright infringement.

a. Perfect 10's Claimed Notice of Infringement

Perfect 10 argues that CCBill and CWIE implemented their repeat infringer policy in an unreasonable manner because CCBill and CWIE received notices of infringement from Perfect 10, and yet the infringement identified in these notices continued. The district court found that Perfect 10 did not provide notice that substantially complied with the requirements of § 512(c)(3),[2] and thus did not raise a genuine

2. Section 512(c)(3) reads:

> (A) To be effective under this subsection, a notification of claimed infringement must be a written communication provided to the designated agent of a service provider that includes substantially the following:
>
> (i) A physical or electronic signature of a person authorized to act on behalf of the owner of an exclusive right that is allegedly infringed.
>
> (ii) Identification of the copyrighted work claimed to have been infringed, or, if multiple copyrighted works

(Cont'd)

issue of material fact as to whether CCBill and CWIE reasonably implemented their repeat infringer policy. We agree.

Compliance is not "substantial" if the notice provided complies with only some of the requirements of § 512(c)(3)(A). Section 512(c)(3)(B)(ii) explains that a service provider will not be deemed to have notice of infringement when "the notification that is provided to the service provider's designated agent fails to comply

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(Cont'd)

> at a single online site are covered by a single notification, a representative list of such works at that site.
>
> (iii) Identification of the material that is claimed to be infringing or to be the subject of infringing activity and that is to be removed or access to which is to be disabled, and information reasonably sufficient to permit the service provider to locate the material.
>
> (iv) Information reasonably sufficient to permit the service provider to contact the complaining party, such as an address, telephone number, and, if available, an electronic mail address at which the complaining party may be contacted.
>
> (v) A statement that the complaining party has a good faith belief that use of the material in the manner complained of is not authorized by the copyright owner, its agent, or the law.
>
> (vi) A statement that the information in the notification is accurate, and under penalty of perjury, that the complaining party is authorized to act on behalf of the owner of an exclusive right that is allegedly infringed.

substantially with all the provisions of subparagraph (A) but substantially complies with clauses (ii), (iii), and (iv) of subparagraph (A)" so long as the service provider responds to the inadequate notice and explains the requirements for substantial compliance. The statute thus signals that substantial compliance means substantial compliance with *all* of § 512(c)(3)' s clauses, not just some of them. *See* H.R. Rep., at 56 (A communication substantially complies even if it contains technical errors such as misspellings or outdated information.). *See also Recording Indus. Ass'n of Am., Inc. v. Verizon Internet Servs., Inc.*, 351 F.3d 1229, 1236 (D.C.Cir. 2003) (citing H.R. Rep., at 56).[3]

Perfect 10 claims that it met the requirements of § 512(c)(3) through a combination of three sets of documents. The first set of documents is a 22,185 page bates-stamped production on October 16, 2002 that includes pictures with URLs of Perfect 10 models allegedly posted on CCBill or CWIE client websites. The October 16, 2002 production did not contain a statement under penalty of perjury that the complaining party was authorized to act, as required by § 512(c)(3)(A)(vi). The second set of documents was also not sworn to, and consisted of a spreadsheet emailed to Fisher on July 14, 2003 identifying the Perfect 10 models in the October 16, 2002 production by bates number. On December 2, 2003, Perfect 10 completed interrogatory responses which were signed under penalty of perjury. These responses incorporated the July 14, 2003 spreadsheet by reference.

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3. We do not read the Fourth Circuit's holding in *ALS Scan, Inc. v. RemarQ Communities, Inc.*, 239 F.3d 619, 625 (4th Cir. 2001), as holding that *only* location information is required for substantial compliance with the terms of § 512(c)(3).

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Taken individually, Perfect 10's communications do not substantially comply with the requirements of § 512(c)(3). Each communication contains more than mere technical errors; often one or more of the required elements are entirely absent. *See Perfect 10, Inc. v. CCBill, LLC*, 340 F.Supp.2d 1077, 1100-01 (C.D.Cal.2004) ("Order"). In order to substantially comply with § 512(c)(3)'s requirements, a notification must do more than identify infringing files. The DMCA requires a complainant to declare, under penalty of perjury, that he is authorized to represent the copyright holder, and that he has a good-faith belief that the use is infringing. This requirement is not superfluous. Accusations of alleged infringement have drastic consequences: A user could have content removed, or may have his access terminated entirely. If the content infringes, justice has been done. But if it does not, speech protected under the First Amendment could be removed. We therefore do not require a service provider to start potentially invasive proceedings if the complainant is unwilling to state under penalty of perjury that he is an authorized representative of the copyright owner, and that he has a good-faith belief that the material is unlicensed.[4]

Permitting a copyright holder to cobble together adequate notice from separately defective notices also unduly burdens service providers. Indeed, the text of § 512(c)(3) requires

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4. Perfect 10's argument that its initial notice substantially complied with the DMCA's notice requirements because Fisher, the recipient of that notice, admitted that he could have found the infringing photographs on the basis of the October 16, 2002, bates-stamped production, is thus beside the point. Without the predicate certification under penalty of perjury, Fisher would have had no reason to go looking for the photographs.

that the notice be "*a* written communication." (Emphasis added). Again, this requirement is not a mere technicality. It would have taken Fisher substantial time to piece together the relevant information for each instance of claimed infringement. To do so, Fisher would have to first find the relevant line in the spreadsheet indicating ownership information, then comb the 22,185 pages provided by Perfect 10 in order to find the appropriate image, and finally copy into a browser the location printed at the top of the page-a location which was, in some instances, truncated. The DMCA notification procedures place the burden of policing copyright infringement-identifying the potentially infringing material and adequately documenting infringement-squarely on the owners of the copyright. We decline to shift a substantial burden from the copyright owner to the provider; Perfect 10's separate communications are inadequate.

Since Perfect 10 did not provide effective notice, knowledge of infringement may not be imputed to CCBill or CWIE based on Perfect 10's communications. Perfect 10's attempted notice does not raise a genuine issue of material fact that CCBill and CWIE failed to reasonably implement a repeat infringer policy within the meaning of § 512(i)(1)(A).

b. Non-Party Notices

Perfect 10 also cites to notices of infringement by other copyright holders, and argues that CCBill and CWIE did not reasonably implement their repeat infringer policies because they continued to provide services for websites that infringed non-party copyrights. The district court expressly declined to consider evidence of notices provided by any party other

than Perfect 10 on the basis that these notices were irrelevant to Perfect 10's claims. We disagree.

CCBill and CWIE's actions towards copyright holders who are not a party to the litigation are relevant in determining whether CCBill and CWIE reasonably implemented their repeat infringer policy. Section 512(i)(1)(A) requires an assessment of the service provider's "policy," not how the service provider treated a particular copyright holder. *See Ellison*, 357 F.3d at 1080 (AOL's repeat infringer policy was not reasonably implemented because copyright holders other than Ellison could have attempted to notify AOL during the time that AOL's email address was incorrectly listed.). Thus, CCBill and CWIE's response to adequate non-party notifications is relevant in determining whether they reasonably implemented their policy against repeat infringers.

A policy is unreasonable only if the service provider failed to respond when it had knowledge of the infringement. The district court in this case did not consider any evidence relating to copyright holders other than Perfect 10. We remand for determination of whether CCBill and/or CWIE implemented its repeat infringer policy in an unreasonable manner with respect to any copyright holder other than Perfect 10.

c. Apparent Infringing Activity

In importing the knowledge standards of § 512(c) to the analysis of whether a service provider reasonably implemented its § 512(i) repeat infringer policy, Congress

also imported the "red flag" test of § 512(c)(1)(A)(ii). Under this section, a service provider may lose immunity if it fails to take action with regard to infringing material when it is "aware of facts or circumstances from which infringing activity is apparent." § 512(c)(1)(A)(ii). Notice that fails to substantially comply with § 512(c)(3), however, cannot be deemed to impart such awareness. §§ 512(c)(3)(B)(i) & (ii).

Perfect 10 alleges that CCBill and CWIE were aware of a number of "red flags" that signaled apparent infringement. Because CWIE and CCBill provided services to "illegal.net" and "stolencelebritypics.com," Perfect 10 argues that they must have been aware of apparent infringing activity. We disagree. When a website traffics in pictures that are titillating by nature, describing photographs as "illegal" or "stolen" may be an attempt to increase their salacious appeal, rather than an admission that the photographs are actually illegal or stolen. We do not place the burden of determining whether photographs are actually illegal on a service provider.

Perfect 10 also argues that a disclaimer posted on illegal.net made it apparent that infringing activity had taken place. Perfect 10 alleges no facts showing that CWIE and CCBill were aware of that disclaimer, and, in any event, we disagree that the disclaimer made infringement apparent. The disclaimer in question stated: "The copyrights of these files remain the creator's. I do not claim any rights to these files, other than the right to post them." Contrary to Perfect 10's assertion, this disclaimer is not a "red flag" of infringement. The disclaimer specifically states that the webmaster has the right to post the files.

In addition, Perfect 10 argues that password-hacking websites, hosted by CWIE, also obviously infringe. While such sites may not directly infringe on anyone's copyright, they may well contribute to such infringement. The software provided by Grokster in *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 125 S.Ct. 2764, 162 L.Ed.2d 781 (2005), also did not itself infringe, but did enable users to swap infringing files. *Grokster* held that "instructing [users] how to engage in an infringing use" could constitute contributory infringement. *Id.* at 936, 125 S.Ct. 2764. Similarly, providing passwords that enable users to illegally access websites with copyrighted content may well amount to contributory infringement.

However, in order for a website to qualify as a "red flag" of infringement, it would need to be apparent that the website instructed or enabled users to infringe another's copyright. *See A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1013 n. 2 (9th Cir. 2001). We find that the burden of determining whether passwords on a website enabled infringement is not on the service provider. The website could be a hoax, or out of date. The owner of the protected content may have supplied the passwords as a short-term promotion, or as an attempt to collect information from unsuspecting users. The passwords might be provided to help users maintain anonymity without infringing on copyright. There is simply no way for a service provider to conclude that the passwords enabled infringement without trying the passwords, and verifying that they enabled illegal access to copyrighted material. We impose no such investigative duties on service providers. Password-hacking websites are thus not *per se* "red flags" of infringement.

Perfect 10 also alleges that "red flags" raised by third parties identified repeat infringers who were not terminated. Because the district court did not consider potential red flags raised by third parties, we remand to the district court to determine whether third-party notices made CCBill and CWIE aware that it provided services to repeat infringers, and if so, whether they responded appropriately.

B. Standard Technical Measures: § 512(i)(1)(B)

Under § 512(i)(1)(B), a service provider that interferes with "standard technical measures" is not entitled to the safe harbors at §§ 512(a)-(d). "Standard technical measures" refers to a narrow group of technology-based solutions to online copyright infringement:

> [T]he term "standard technical measures" means technical measures that are used by copyright owners to identify or protect copyrighted works and–
>
> (A) have been developed pursuant to a broad consensus of copyright owners and service providers in an open, fair, voluntary, multi-industry standards process;
>
> (B) are available to any person on reasonable and nondiscriminatory terms; and
>
> (C) do not impose substantial costs on service providers or substantial burdens on their systems or networks.

§ 512(i)(2). Perfect 10 argues that CCBill does not qualify for any safe harbor because it interfered with "standard technical measures" by blocking Perfect 10's access to CCBill affiliated websites in order to prevent Perfect 10 from discovering whether those websites infringed Perfect 10 copyrights.

There are two disputed facts here.

We are unable to determine on this record whether accessing websites is a standard technical measure, which was "developed pursuant to a broad consensus of copyright owners and service providers in an open, fair, voluntary, multi-industry standards process." § 512(i)(2)(A). We thus remand to the district court to determine whether access to a website is a "standard technical measure," and if so, whether CCBill interfered with that access.

If allowing access is a standard technical measure, CCBill claims it only blocked Perfect 10's credit card because Perfect 10 had previously reversed charges for subscriptions; Perfect 10 insists it did so in order to prevent Perfect 10 from identifying infringing content. If CCBill is correct, Perfect 10's method of identifying infringement-forcing CCBill to pay the fines and fees associated with chargebacks-may well impose a substantial cost on CCBill. If not, CCBill may well have interfered with Perfect 10's efforts to police the websites in question for possible infringements. Because there are disputed issues of material fact, we remand to the district court for a determination of whether CCBill's refusal to process Perfect 10's transactions interfered with a "standard technical measure" for identifying infringement.

Appendix A

C. Transitory Digital Network Communications: § 512(a)

Section 512(a) provides safe harbor for service providers who act as conduits for infringing content. In order to qualify for the safe harbor of § 512(a), a party must be a service provider under a more restrictive definition than applicable to the other safe harbors provided under § 512:

> As used in subsection (a), the term "service provider" means an entity offering the transmission, routing, or providing of connections for digital online communications, between or among points specified by a user, of material of the user's choosing, without modification to the content of the material as sent or received.

Section 512(k)(1)(A). The district court held that CCBill met the requirements of § 512(k)(1)(A) by "provid[ing] a connection to the material on its clients' websites through a system which it operates in order to provide its clients with billing services." Order at 1102. We reject Perfect 10's argument that CCBill is not eligible for immunity under § 512(a) because it does not itself transmit the infringing material. A service provider is "an entity offering the transmission, routing, or providing of connections for digital online communications." § 512(k)(1)(A). There is no requirement in the statute that the communications must themselves be infringing, and we see no reason to import such a requirement. It would be perverse to hold a service provider immune for transmitting information that was infringing on its face, but find it contributorily liable for transmitting information that did not infringe.

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Section 512(a) provides a broad grant of immunity to service providers whose connection with the material is transient. When an individual clicks on an Internet link, his computer sends a request for the information. The company receiving that request sends that request on to another computer, which sends it on to another. After a series of such transmissions, the request arrives at the computer that stores the information. The requested information is then returned in milliseconds, not necessarily along the same path. In passing the information along, each intervening computer makes a short-lived copy of the data. A short time later, the information is displayed on the user's computer.

Those intervening computers provide transient connections among users. The Internet as we know it simply cannot exist if those intervening computers must block indirectly infringing content. We read § 512(a)'s grant of immunity exactly as it is written: Service providers are immune for transmitting all digital online communications, not just those that directly infringe.

CCBill transmits credit card information and proof of payment, both of which are "digital online communications." However, we have little information as to how CCBill sends the payment it receives to its account holders. It is unclear whether such payment is a digital communication, transmitted without modification to the content of the material, or transmitted often enough that CCBill is only a transient holder. On the record before us, we cannot conclude that CCBill is a service provider under § 512(a). Accordingly, we remand to the district court for further consideration the issue of whether CCBill meets the requirements of § 512(a).

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D. Information Location Tools: § 512(d)

After CCBill processes a consumer's credit card and issues a password granting access to a client website, CCBill displays a hyperlink so that the user may access the client website. CCBill argues that it falls under the safe harbor of § 512(d) by displaying this hyperlink at the conclusion of the consumer transaction. We disagree. Section 512(d) reads:

> A service provider shall not be liable for monetary relief, or, except as provided in subsection (j), for injunctive or other equitable relief, for infringement of copyright by reason of the provider referring or linking users to an online location containing infringing material or infringing activity, by using information location tools, including a directory, index, reference, pointer, or hypertext link.

Even if the hyperlink provided by CCBill could be viewed as an "information location tool," the majority of CCBill's functions would remain outside of the safe harbor of § 512(d). Section 512(d) provides safe harbor only for "infringement of copyright *by reason of* the provider referring or linking users to an online location containing infringing material or infringing activity." (Emphasis added). Perfect 10 does not claim that CCBill infringed its copyrights by providing a hyperlink; rather, Perfect 10 alleges infringement through CCBill's performance of other business services for these websites. Even if CCBill's provision of a hyperlink is immune under § 512(n), CCBill does not receive blanket immunity for its other services.

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E. Information Residing on Systems or Networks at the Direction of Users: § 512(c)

Section 512(c) "limits the liability of qualifying service providers for claims of direct, vicarious, and contributory infringement for storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider." H.R. Rep., at 53. A service provider qualifies for safe harbor under § 512(c) if it meets the requirements of § 512(i) and:

> (A)(i) does not have actual knowledge that the material or an activity using the material on the system or network is infringing;
>
> (ii) in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent; or
>
> (iii) upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material;
>
> (B) does not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity; and
>
> (C) upon notification of claimed infringement as described in paragraph (3), responds expeditiously to remove, or disable access to, the material that is claimed to be infringing or to be the subject of infringing activity.

Section 512(c)(1). As discussed above, Perfect 10 did not provide CWIE with knowledge or awareness within the standard of § 512(c)(1)(A), and Perfect 10 did not provide notice that complies with the requirements of § 512(c)(3).

The remaining question is whether Perfect 10 raises a genuine issue of material fact that CWIE does not qualify for safe harbor under § 512(c) because it fails to meet the requirements of § 512(c)(1)(B), namely, that a service provider not receive a direct financial benefit from the infringing activity if the service provider also has the right and ability to control the infringing activity.

Based on the "well-established rule of construction that where Congress uses terms that have accumulated settled meaning under common law, a court must infer, unless the statute otherwise dictates, that Congress means to incorporate the established meaning of these terms," *Rossi*, 391 F.3d at 1004 n. 4 (9th Cir. 2004) (quoting *Neder v. United States*, 527 U.S. 1, 21, 119 S.Ct. 1827, 144 L.Ed.2d 35 (1999)), we hold that "direct financial benefit" should be interpreted consistent with the similarly-worded common law standard for vicarious copyright liability. *See, e.g., Ellison*, 357 F.3d at 1078 (a vicariously liable copyright infringer "derive[s] a direct financial benefit from the infringement and ha[s] the right and ability to supervise the infringing activity"). Thus, the relevant inquiry is "whether the infringing activity constitutes a draw for subscribers, not just an added benefit." *Id.* at 1079. In *Ellison*, the court held that "no jury could reasonably conclude that AOL received a direct financial benefit from providing access to the infringing material" because "[t]he record lacks evidence that AOL attracted or

retained subscriptions because of the infringement or lost subscriptions because of AOL's eventual obstruction of the infringement." *Id.*

In this case, Perfect 10 provides almost no evidence about the alleged direct financial benefit to CWIE. Perfect 10 only alleges that "CWIE 'hosts' websites for a fee." This allegation is insufficient to show that the infringing activity was "a draw" as required by *Ellison*. 357 F.3d at 1079. Furthermore, the legislative history expressly states that "receiving a one-time set-up fee and flat, periodic payments for service from a person engaging in infringing activities would not constitute receiving a 'financial benefit directly attributable to the infringing activity.' " H.R. Rep., at 54. Perfect 10 has not raised a genuine issue of material fact that CWIE receives a direct financial benefit from infringing activity. Because CWIE does not receive a direct financial benefit, CWIE meets the requirements of § 512(c).

If the district court finds that CWIE meets the threshold requirements of § 512(i), CWIE is entitled to safe harbor under § 512(c).

II. COMMUNICATIONS DECENCY ACT

The Communications Decency Act states that "[n]o provider or user of an interactive computer service shall be treated as the publisher or speaker of any information provided by another information content provider," and expressly preempts any state law to the contrary. 47 U.S.C. §§ 230(c)(1), (e)(3). "The majority of federal circuits have interpreted the CDA to establish broad 'federal immunity to

any cause of action that would make service providers liable for information originating with a third-party user of the service.' " *Almeida v. Amazon.com, Inc.*, 456 F.3d 1316, 1321 (11th Cir. 2006) (quoting *Zeran v. America Online, Inc.*, 129 F.3d 327, 331 (4th Cir. 1997)); *see also Carafano v. Metrosplash.com, Inc.*, 339 F.3d 1119, 1122 (9th Cir. 2003) (citing *Batzel v. Smith*, 333 F.3d 1018, 1026-27 (9th Cir. 2003)).

The immunity created by § 230(c)(1) is limited by § 230(e)(2), which requires the court to "construe Section 230(c)(1) in a manner that would neither 'limit or expand any law pertaining to intellectual property.' " *Gucci Am., Inc. v. Hall & Assocs.*, 135 F.Supp.2d 409, 413 (S.D.N.Y. 2001) (quoting § 230(e)(2)). As a result, the CDA does not clothe service providers in immunity from "law[s] pertaining to intellectual property." *See Almeida*, 456 F.3d at 1322.

The CDA does not contain an express definition of "intellectual property," and there are many types of claims in both state and federal law which may-or may not-be characterized as "intellectual property" claims. While the scope of federal intellectual property law is relatively well-established, state laws protecting "intellectual property," however defined, are by no means uniform. Such laws may bear various names, provide for varying causes of action and remedies, and have varying purposes and policy goals. Because material on a website may be viewed across the Internet, and thus in more than one state at a time, permitting the reach of any particular state's definition of intellectual property to dictate the contours of this federal immunity would be contrary to Congress's expressed goal of insulating

the development of the Internet from the various state-law regimes. *See* 47 U.S.C. §§ 230(a) and (b); *see also Batzel*, 333 F.3d at 1027 (noting that "courts construing § 230 have recognized as critical in applying the statute the concern that lawsuits could threaten the 'freedom of speech in the new and burgeoning Internet medium' " (quoting *Zeran*, 129 F.3d at 330)). In the absence of a definition from Congress, we construe the term "intellectual property" to mean "federal intellectual property." [5] Accordingly, CCBill and CWIE are

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5. In its petition for rehearing, Perfect 10 claims that our decision on this point conflicts with *Universal Communication Systems, Inc. v. Lycos, Inc.*, 478 F.3d 413 (1st Cir. 2007). But neither party in that case raised the question of whether state law counts as "intellectual property" for purposes of § 230 and the court seems to simply have assumed that it does. We thus create no conflict with *Universal Communication*.

We note that *Universal Communication* demonstrates the difficulties inherent in allowing state laws to count as intellectual property for CDA purposes. In that case, the district court struggled with the question of whether the "trademark dilution" claim brought under Florida Law counted as intellectual property for purposes of the CDA, and concluded that it was more like a defamation claim than a trademark claim. *Id.* at 423 n. 7. Rather than decide how to draw the line between defamation and trademark, the First Circuit held that "because of the serious First Amendment issues that would be raised" if Lycos were found liable, defendant had not violated the Florida statute. *Id.* at 423.

The First Circuit was able to sidestep the question of what counted as intellectual property on First Amendment grounds. But we cannot do so here. States have any number of laws that could be characterized as intellectual property laws: trademark, unfair

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eligible for CDA immunity for all of the state claims raised by Perfect 10.

III. DIRECT COPYRIGHT INFRINGEMENT

"Plaintiffs must satisfy two requirements to present a prima facie case of direct infringement: (1) they must show ownership of the allegedly infringed material and (2) they must demonstrate that the alleged infringers violate at least one exclusive right granted to copyright holders under 17 U.S.C. § 106." *Napster,* 239 F.3d at 1013. Perfect 10 alleges that CCBill and CWIE directly infringed its copyrights through its website, hornybees.com.

There is a genuine issue of material fact as to the relationship between CCBill/CWIE and hornybees.com. CCBill and CWIE state that hornybees.com is operated by an entity called "CCBucks," and that CCBill and CWIE have no interest in hornybees.com. However, the hornybees.com

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competition, dilution, right of publicity and trade defamation, to name just a few. Because such laws vary widely from state to state, no litigant will know if he is entitled to immunity for a state claim until a court decides the legal issue. And, of course, defendants that are otherwise entitled to CDA immunity will usually be subject to the law of numerous states. An entity otherwise entitled to § 230 immunity would thus be forced to bear the costs of litigation under a wide variety of state statutes that could arguably be classified as "intellectual property." As a practical matter, inclusion of rights protected by state law within the "intellectual property" exemption would fatally undermine the broad grant of immunity provided by the CDA.

website reads: "Brought to you by CCBill LLC and Cavecreek Web Hosting." The record indicates that Cavecreek Web Hosting may be CWIE, and that CWIE may be the registrant of hornybees.com. Furthermore, the vice president of operations of both CCBill and CWIE lists CCBucks as being related to CWIE and CCBill.

Perfect 10 has also raised a genuine issue of material fact that hornybees.com has infringed Perfect 10's copyrights by posting pictures of a Perfect 10 model's body with the head of a celebrity. The declaration provided by Perfect 10's founder and president asserting that the photo is that of a Perfect 10 model is sufficient evidence to raise a genuine issue of material fact.

Because Perfect 10 has raised a triable issue whether CCBill and CWIE directly infringed Perfect 10 copyrights by operating hornybees.com, and because the district court did not address this issue in its order granting summary judgment in favor of Perfect 10, we remand this issue for a determination by the district court.[6]

IV. COSTS AND ATTORNEY'S FEES

The Copyright Act of 1976 permits the district court to "award a reasonable attorney's fee to the prevailing party as part of the costs." 17 U.S.C. § 505. Fees are proper under this statute when either successful prosecution or successful defense of the action furthers the purposes of the Copyright

6. If CCBill and CWIE operate hornybees.com, no immunity for infringement on that site is available under either the DMCA or the CDA.

Act. *See Fantasy, Inc. v. Fogerty*, 94 F.3d 553, 558 (9th Cir. 1996) ("[A] successful defense of a copyright infringement action may further the policies of the Copyright Act every bit as much as a successful prosecution of an infringement claim by the holder of a copyright.") (quoting *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 527, 114 S.Ct. 1023, 127 L.Ed.2d 455 (1994)). As such, prevailing defendants as well as prevailing plaintiffs are eligible for such an award, and the standards for evaluating whether an award is proper are the same regardless of which party prevails. *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 534, 114 S.Ct. 1023, 127 L.Ed.2d 455 (1994).

Thus, the awarding of attorney's fees is a matter for the district court's discretion. *Id.* To guide that discretion, the Supreme Court endorsed the non-exclusive list employed by the Third Circuit in *Lieb v. Topstone Industries, Inc.*, 788 F.2d 151, 156 (1986) (the so-called "*Lieb* factors"). *Fogerty*, 510 U.S. at 534 n. 19, 114 S.Ct. 1023. The list includes "frivolousness, motivation, objective unreasonableness (both in the factual and in the legal components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence." *Id.*

The district court made clear in its order denying fees that it had weighed each of the *Lieb* factors and validly exercised its discretion to deny defendants' fees. Defendants argue that the district judge inadequately considered these factors, that Perfect 10's litigation positions were frivolous and meritless, and that Perfect 10 is a serial filer of nuisance copyright claims. Because we reverse in part and remand a substantial portion of this case to the district court, there is

ample support for the district court's finding that Perfect 10's legal claims are not frivolous or objectively unreasonable. The district court reasonably found the evidence regarding Perfect 10's motivation to be equivocal, and did not abuse its discretion in weighing the interests of compensation and deterrence and denying costs and attorney's fees to defendants.

CONCLUSION

We remand to the district court for a determination of whether CCBill and CWIE reasonably implemented a policy under § 512(i)(1)(A) based on its treatment of non-party copyright holders. Because § 512(i)(1)(A) is a threshold determination, we remand the remaining issues under § 512 for further proceedings consistent with this opinion.

We remand for further determination of whether hornybees.com is owned by CCBill or CWIE, and if so, whether CCBill or CWIE are directly liable under state or federal law for its operation.

The district court's decision regarding CDA immunity is affirmed as to the unfair competition and false advertising claims, and reversed as to the right of publicity claim.

We affirm the district court's decision to deny an award of attorney's fees and costs to defendants.

Each party shall bear its own costs on appeal.

AFFIRMED IN PART, REVERSED IN PART, AND REMANDED

APPENDIX B — ORDER GRANTING, IN PART, AND DENYING, IN PART, DEFENDANTS' MOTIONS FOR SUMMARY JUDGMENT OF THE UNITED STATES DISTRICT COURT FOR THE CENTRAL DISTRICT OF CALIFORNIA DATED JUNE 22, 2004

UNITED STATES DISTRICT COURT FOR THE C.D. OF CALIFORNIA

No. CV 02-7624 LBG(SHx)

PERFECT 10, INC.,

Plaintiff,

v.

CCBILL, LLC, et al.,

Defendants.

ORDER GRANTING, IN PART, AND DENYING, IN PART, DEFENDANTS' MOTIONS FOR SUMMARY JUDGMENT

BAIRD, District Judge.

I. INTRODUCTION

Defendants Internet Billing Co., LLC ("IBill"), Internet Key, Inc. ("Internet Key"), Cavecreek Wholesale Internet Exchange ("CWIE"), and CCBill, LLC ("CCBill") have filed the instant motions for partial summary judgment of Perfect

10, Inc.'s ("Perfect 10") copyright, RICO, and state law claims based on safe harbors provided by the Digital Millennium Copyright Act ("DMCA") and immunity provided by the Communications Decency Act ("CDA"). By this Order, the Court addresses the four motions for partial summary judgment.[1]

II. FACTUAL AND PROCEDURAL HISTORY

A. *Factual History*

The facts are undisputed unless otherwise noted.

1. *Perfect 10*

Perfect 10 is the publisher of the adult entertainment magazine Perfect 10 and the owner of the website perfect10.com. *See* II Zadeh Decl. at ¶ 2. Perfect 10 has created approximately 5,000 photographic images for display in its magazine and on its website. *See id.* at ¶ 17. Perfect 10 holds registered U.S. copyrights for these images. *See id.; see also* Compl. Exh. O (containing copies of the copyright registrations owned when the complaint was filed). In addition, Perfect 10 has several registered trademark/service marks. *See* II Zadeh Decl. at ¶ 18; *see also* Compl. Exh. P

1. The Court has devised the following citation nomenclature to distinguish the pleadings filed in support of the different motions: (1) all pleadings filed in support of Internet Key's motion against Perfect 10 shall be preceded by an "I"; (2) all pleadings filed in support of IBill's motion against Perfect 10 shall be preceded by an "II"; (3) all pleadings filed in support of CCBill's and CWIE's motions against Perfect 10 shall be preceded by an "III."

(containing copies of trademark registrations owned when the complaint was filed). Finally, Perfect 10 is the assignee of the rights of publicity of many models. *See* II Zadeh Decl. at ¶ 19-21.

2. *IBill*

IBill is a company that processes payments for online merchants. II Zadeh Decl. at ¶ 22. IBill has nearly 5,000 clients with over 70,000 websites. II Smith Decl. at ¶ 4. All material selected and posted by IBill's clients' websites is selected and posted by IBill's clients. *Id.*, ¶ 7. IBill can suspend or terminate its relationship with websites if it becomes aware that the website is violating IBill's policies or state or federal law. *Id.*, ¶ 8. When IBill suspends or terminates a client, the contents of the clients' website remains intact and unchanged. *Id.*, ¶ 9 In addition, suspension or termination does not affect the ability of the website's existing customers (those who have already paid) to obtain access to the website. *Id.* Suspension or termination does, however, prevent the owner of the website from receiving new payments using IBill's payment processing services. *Id.*

3. *Internet Key*

Hank Freeman is the President of Internet Key. I Freeman Decl., ¶ 1; I Cooper Decl., Exh. 1 (Freeman Depo.), at 15:10-20.[2] Internet Key is an age verification system for adult

2. The deposition contains two different sets of page numbers. The Court will refer to the original deposition pages found on the bottom right-hand side of the pages, not the exhibit page numbers found at the bottom middle of the pages.

content websites. I Freeman Decl., ¶ 2. Starting in 1997, Internet Key has provided adult verification services, including providing links, to third-party adult content websites. *Id.* Currently, Internet Key verifies age and provides a link to approximately 30,000 third-party adult content websites that participate in the SexKey system ("Affiliated Websites"). *Id.* The Affiliated Websites are not owned by Internet Key although some are owned by employees of WCD Enterprises, another company that Freeman owns. *Id.*, ¶ 4; I Cooper Decl., Exh. 1 (Freeman Depo.), at 119:1-5. A user (consumer) cannot access an Affiliated Website without proving he or she is of legal age. I Freeman Decl., ¶ 5. Internet Key provides each Affiliated Website with a site ID and an HTML code to place on their site. *Id.* When a new user clicks onto an Affiliated Website, a link that tracks the site ID automatically directs the user to sexkey.com for age verification. *Id.* The user is directed to Internet Key's registration page, which contains Internet Key's User Agreement. *Id.*, ¶ 6. The User Agreement sets forth terms and conditions that a user must certify and agree in order to subscribe to a SexKey membership. *Id.* Once the user agrees to all the terms of the User Agreement by checking on a box that the user agrees, the user is provided a user password to access all of the Affiliated Websites in the SexKey system. *Id.*, ¶ 8. Internet Key does not store the content of the Affiliated Websites on its computer system. *Id.*, ¶ 13. It only stores information related to the Affiliated Websites' URLs, site descriptions and webmaster information. *Id.*

Prior to January 22, 2004, the only website Internet Key owned was sexkey.com. *Id.*, ¶ 12. On January 22, 2004,

Internet Key started a new website called sksignature.com, which is part of the SexKey system. *Id.* Internet Key owns or leases all the content contained on sksignature.com. *Id.*[3]

Internet Key also acts as a search engine (similar to Yahoo or Google) for free adult content on the Internet. I Freeman Decl., ¶ 4. Sometimes, when an Affiliated Website is accessed through SexKey, the words "sexkey.com" appear in the URL. I Zadeh Decl., ¶ 65, Exh. 51. Internet Key did not adopt a DMCA policy until August 21, 2002. I Cooper Decl., ¶ 4, Exh. 2 at 27.

4. *CWIE*

Thomas Fisher is the Executive Vice-President of CWIE. III CWIE Fisher Decl., ¶ 1.[4] CWIE is a provider of web hosting and related Internet connectivity services. *Id.*, ¶ 3. CWIE provides what is referenced within the industry as "ping, power, and pipe." *Id.* As a provider of Internet access, website hosting, and other Internet-related services, CWIE offers its clients, and their customers and users, the means to acquire and disseminate public, private, commercial, and non-commercial information. *Id.* "Ping, power, and pipe" refers respectively to ensuring the "box" or server is on,

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3. Perfect 10 has not alleged any infringements on www.sksignature.com. *Id.*

4. Perfect 10 contends that CWIE and CCBill are both owned by CWIE Holdings, LLC. III Zadeh Decl., ¶ 233, Exh. 202. Perfect 10 has submitted a chart that it received from CCBill or CWIE that does not identify, in any manner, common corporate ownership. Therefore, this contention is not supported by the evidence presented.

ensuring power is provided to the server, and connecting the client's server or website to the Internet backbone via a data center connection. *Id.*

CWIE's clients are the creators and/or owners of the content they seek to present to consumers via their website. *Id.*, ¶ 4. CWIE is not in the business of producing, designing, supervising or editing the content that appears on CWIE's clients' websites. *Id.* CWIE adopted its repeat infringer policy in 1999. *Id.*, ¶ 11. CWIE's termination policy states that:

> Engaging in any activity that infringes or misappropriates the intellectual property rights of others is prohibited. This includes copyrights, trademarks, service marks, trade secrets, software piracy, and patents held by individuals, corporations, or other entities. Engaging in activity that violates privacy, publicity, and other personal rights of others is likewise prohibited. CWIE is required by law to remove or block access to client content upon receipt of a proper notice of copyright infringement or other violations of the law. It is also CWIE's policy to terminate the privileges of clients who commit repeat violations of copyright laws.

III CWIE Fisher Decl., ¶ 9, Exh. A, at 1-2.

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5. *CCBill*

Thomas Fisher is the Executive Vice-President of CCBill. III CCBill Fisher Decl., ¶ 1. CCBill's clients are the creators and/or owners of the content they seek to present to consumers via the Internet. *Id.*, ¶ 3. CCBill is not in the business of producing, designing, supervising or editing the content that appears on CCBill's clients' websites. *Id.* CCBill provides a fully automated Internet service that enables consumers to use credit cards or checks to pay for subscriptions or memberships to e-commerce venues created and offered by CCBill's clients. *Id.* CCBill does not own or operate any site for which a subscription or membership is required. *Id.* As part of its services to its clients, CCBill provides an automated on-line accounting mechanism that clients may use to verify statistical and financial activities processed for them through CCBill's on-line Internet automated transaction processing system. *Id.* Consumers who have joined a client's venue may cancel their subscription via an email or telephone call directed to CCBIll. *Id.*

CCBill has a repeat infringer policy, adopted in 1999, which states:

> As an ISP, CCBill follows the procedures prescribed by the Digital Millenium Copyright Act (DMCA) for notification, takedown, and counter-notification. If you believe that a CCBill client has something on a website that constitutes a [violation] of your copyrights, or if any of your other intellectual property rights [have been] violated, please provide the following information to CCBill's Registered [DMCA Agent].

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1. Your electronic or physical signature.

2. A description of the copyrighted work and where the original work [is located].

3. A description of where the infringement is located.

4. Your address, telephone number, and email address.

5. A statement by you that you have a good faith belief that the use is not authorized by the copyright owner, agent, or the law.

6. A statement by you, that under penalty of perjury, that the [above] is accurate and that you are the copyright owner or authorized [to act] on the owner's behalf.

Please send all legal notices to . . .

Id., ¶ 9, Exh. D.

B. *Procedural History*

Plaintiff Perfect 10 filed its Complaint against Defendants CCBill, IBill, Paycom Billing Services, Inc., IMA Enterprises, Inc., Clarence Coogan, U. Berger, Cybertech Communications, NV, Celebskank, Network Authentication Systems Corporation, CWIE, Netpass Systems, Inc., and

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Internet Key on September 30, 2002. The Complaint alleges the following claims against all of the Defendants

Claim 1: federal copyright infringement;

Claim 2: federal trademark infringement;

Claim 3: federal trademark disparagement;

Claim 4: wrongful use of registered mark under California state law;

Claim 5: violation of right of publicity under California state law;

Claim 6: unfair competition under California Business & Professions Code §§ 17200 and under the Lanham Act § 43(a);

Claim 7: false and misleading advertising pursuant to California Business & Professions Code §§ 17500 and the common law;

Claim 8: RICO (investment of proceeds); and

Claim 9: RICO (participation in criminal enterprise).

See Compl.

On October 16, 2003, the Court ordered the bifurcation of discovery in this case. *See* October 16, 2003 Minute Order.

The first phase of discovery was to relate solely to the Defendants' defenses to the claims under the CDA and the DMCA. *Id.* Phase I discovery was closed on January 16, 2003. *See* November 17, 2003 Minute Order, at 2.

The parties have filed evidentiary objections in connection with the motions for summary judgment. The Court will only address the objections to the evidence that is relevant to the Court's analysis.

III. LEGAL STANDARD

Rule 56 of the Federal Rules of Civil Procedure provides that a court shall grant a motion for summary judgment if "the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to judgment as a matter of law." Fed.R.Civ.P. 56(c). Material facts are those that may affect the outcome of the case. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248, 106 S.Ct. 2505, 91 L.Ed.2d 202 (1986). A dispute as to a material fact is genuine if there is sufficient evidence for a reasonable jury to return a verdict for the nonmoving party. *Id.*

The party moving for summary judgment bears the initial burden of informing the district court of the basis of the summary judgment motion and of demonstrating the absence of a genuine issue of material fact for trial. *Celotex Corp. v. Catrett*, 477 U.S. 317, 323, 106 S.Ct. 2548, 91 L.Ed.2d 265 (1986); *Katz v. Children's Hosp. of Orange County*, 28 F.3d 1520, 1534 (9th Cir. 1994). On an issue for which the

nonmoving party has the burden of proof at trial, the moving party need only point out "that there is an absence of evidence to support the nonmoving party's case." *Celotex*, 477 U.S. at 325, 106 S.Ct. 2548.

Once this initial burden is satisfied, the non-moving party is required to "go beyond the pleadings and by her own affidavits, or by the depositions, answers to interrogatories, and admissions on file, designate 'specific facts' showing that there is a genuine issue for trial." *Celotex*, 477 U.S. at 324, 106 S.Ct. 2548 (internal quotations omitted); *see also Nilsson, Robbins, Dalgarn, Berliner, Carson & Wurst v. Louisiana Hydrolec*, 854 F.2d 1538, 1544 (9th Cir. 1988). Where the standard of proof at trial is preponderance of the evidence, the non-moving party's evidence must be such that a "fair-minded jury could return a verdict for the [non-moving party] on the evidence presented." *Anderson*, 477 U.S. at 252, 106 S.Ct. 2505.

The court views all facts and draws all inferences therefrom in the light most favorable to the nonmoving party. *United States v. Diebold, Inc.*, 369 U.S. 654, 655, 82 S.Ct. 993, 8 L.Ed.2d 176(1962). The Court must accept the plaintiff's view of all material disputed facts. *LaLonde v. County of Riverside*, 204 F.3d 947, 954 (2000). If, however, the nonmoving party's evidence is "merely colorable" or "not significantly probative," summary judgment may be granted. *Anderson*, 477 U.S. at 249-50, 106 S.Ct. 2505.

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IV. ANALYSIS

A. *Digital Millennium Copyright Act*

"The DMCA was enacted both to preserve copyright enforcement on the Internet and to provide immunity to service providers from copyright infringement liability" for "passive," "automatic" actions in which a service provider's system engages through a technological process initiated by another without the knowledge of the service provider. H.R. Conf. Rep. No. 105-796, at 72 (1998), reprinted in 1998 U.S.C.C.A.N. 649; H.R.Rep. No. 105-551(I), at 11 (1998)." *ALS Scan. Inc. v. RemarQ Cmtys., Inc.*, 239 F.3d 619, 625 (4th Cir. 2001). This immunity, however, is not presumptive, but granted only to "innocent" service providers who can prove they do not have actual or constructive knowledge of the infringement, as defined under any of the three prongs of 17 U.S.C. § 512(c)(1). *Id.* The DMCA's protection of an innocent service provider disappears at the moment the service provider loses its innocence, i.e., at the moment it becomes aware that a third party is using its system to infringe. *Id.* At that point, the Act shifts responsibility to the service provider to disable the infringing matter, preserving the strong incentives for service providers and copyright owners to cooperate to detect and deal with copyright infringements that take place in the digital network environment. *Id.* (citations omitted). In the spirit of achieving a balance between the responsibilities of the service provider and the copyright owner, the DMCA requires that a copyright owner put the service provider on notice in a detailed manner but allows notice by means that comport with the prescribed format only "substantially," rather than perfectly. *Id.*

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The Digital Millenium Copyright Act ("DMCA") creates a "safe harbor" for internet service providers who satisfy the requirements of the statute-protecting them against suits for damages and most injunctive relief. *See generally*, 17 U.S.C. § 512. There are four separate safe harbors within § 512, each with its own separate requirements. *See* 17 U.S.C. § 512(a), (b),(c)(1),(d). However, a threshold requirement for any protection by the DMCA is satisfaction of the requirements in § 512(i). The section reads as follows:

> The limitations on liability established by this section shall apply to a service provider only if the service provider(A) has adopted and reasonably implemented, and informs subscribers and account holders of the service provider's system or network of, a policy that provides for the termination in appropriate circumstances of subscribers and account holders of the service provider's system or network who are repeat infringers; and (B) accommodates and does not interfere with standard technical measures.

17 U.S.C. § 512(i)(1).[5] Unless this threshold requirement is met, further analysis of the specific safe harbors is not required.

The Ninth Circuit has held that § 512(i)(1)(A) has three separate requirements. *See Ellison v. Robertson*, 357 F.3d 1072, 1080 (9th Cir. 2004). Service providers must: (1) adopt a policy that provides for the termination of service access

5. There is no dispute between the parties that the Defendants fulfill the requirements of subsection (B).

for repeat copyright infringers in appropriate circumstances; (2) implement that policy in a reasonable manner; and (3) inform their clients of the policy. *Id.*

The courts have not defined what reasonable implementation of a repeat infringer policy entails. Since the purpose of the DMCA is to relieve internet service providers of the duty of patrolling the Internet for copyright infringements that are not immediately apparent or of which they have no actual knowledge, the DMCA requires that copyright owners inform internet service providers of infringements on the client websites of the internet service providers. *See* § 512(c)(1)(A) and § 512(c)(3). General or vague allegations of copyright infringements are not sufficient to place internet service providers on "notice" of potential copyright infringements. The DMCA provides requirements for proper notification of possible copyright infringements in § 512(c)(3)(A). *See* § 512(c)(3)(A).[6] The

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6. § 512(c)(3) states:

(3) Elements of notification.

(A) To be effective under this subsection, a notification of claimed infringement must be a written communication provided to the designated agent of a service provider that includes substantially the following:

(i) A physical or electronic signature of a person authorized to act on behalf of the owner of an exclusive right that is allegedly infringed.

(ii) Identification of the copyrighted work claimed to have been infringed, or, if multiple copyrighted works

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purpose behind the notice requirement under the DMCA is to provide the internet service provider with adequate information to find and examine the allegedly infringing material expeditiously. *Hendrickson v. Amazon.Com. Inc.*, 298 F.Supp.2d 914, 917 (C.D.Cal.2003). "Under the DMCA, a notification from a copyright owner that fails to comply substantially with § 512(c)(3) 'shall not be considered . . . in determining whether a service provider has actual knowledge or is aware of the facts or circumstances from

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(Cont'd)

> at a single online site are covered by a single notification, a representative list of such works at that site.
>
> (iii) Identification of the material that is claimed to be infringing or to be the subject of infringing activity and that is to be removed or access to which is to be disabled, and information reasonably sufficient to permit the service provider to locate the material.
>
> (iv) Information reasonably sufficient to permit the service provider to contact the complaining party, such as an address, telephone number, and, if available, an electronic mail address at which the complaining party may be contacted.
>
> (v) A statement that the complaining party has a good faith belief that use of the material in the manner complained of is not authorized by the copyright owner, its agent, or the law.
>
> (vi) A statement that the information in the notification is accurate, and under penalty of perjury, that the complaining party is authorized to act on behalf of the owner of an exclusive right that is allegedly infringed.

which infringing activity is apparent.' " *Hendrickson v. Amazon.Com. Inc.*, 298 F.Supp.2d 914, 917-18 (C.D.Cal.2003). In order for a notification to be "DMCA-compliant," it should substantially fulfill the requirements of § 512(c)(3)(A). *ALS Scan, Inc. v. RemarQ Communities, Inc.*, 239 F.3d 619, 625 (4th Cir. 2001).[7] Absolute compliance is not required. *Id.*

Therefore, an internet service provider who receives repeat notifications that substantially comply with the requirements of § 512(c)(3)(A) about one of its clients, but does not terminate its relationship with the client, has not reasonably implemented a repeat infringer policy.

1. *IBill's Motion for Summary Judgment on Perfect 10's Copyright Claim*

IBill argues that Perfect 10's Claim 1 for copyright infringement is barred by § 512(a) of the DMCA. Perfect 10 opposes summary judgment because, among other reasons, it contends that IBill has not met the requirements for terminating repeat infringers as required by § 512(i).

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7. During oral argument, Perfect 10 argued that notifications of repeat infringers under § 512(i) did not have to meet the requirements of § 512(c)(3)(A) based on *In re Aimster Copyright Litigation*, 252 F.Supp.2d 634, 659 (N.D.Ill.2002). In *Aimster*, the district court found that the DMCA did not require that a copyright holder provide Aimster with the internet protocol address of the infringement on the Aimster system. *Id.* An internet protocol address is the numeric address given to servers and users connected to the Internet. The district court did not, however, hold that DMCA notifications under § 512(i) do not need to meet the requirements of § 512(c)(3)(A). Therefore, Perfect 10's reliance *Aimster* to support its argument is misplaced.

Appendix B

a. Threshold Requirements Under § 512(i)

The crux of the dispute between Perfect 10 and IBill is whether the policy adopted by IBill provided for termination of repeat infringers in appropriate circumstances and whether that policy was reasonably implemented.[8]

i. *Policy for Termination of Repeat Infringers*

IBill argues that its policy terminated repeat infringers in appropriate circumstances. IBill states that its policy is that when it receives a notice of copyright infringement that substantially complies with the requirements of the DMCA, IBill suspends payment processing services to that client. *See* II De Vito Decl. at ¶ 26. If IBill determines that it has received previous complaints about that client or the website, IBill terminates the account permanently. *See id.* Perfect 10 argues that IBill's policy does not terminate repeat infringers in appropriate circumstances because it suspends services for particular websites without terminating the webmasters responsible for that material. Therefore, Perfect 10 argues that IBill's policy does not provide for the termination of service access for repeat copyright *infringers*. Perfect 10 also argues that IBill has not reasonably implemented its policy because repeat infringers known to IBill were not terminated.

The focus of § 512(i) is on infringing users rather than on content. *See Perfect 10 v. Cybernet Ventures, Inc.*, 213

8. There is no dispute between the parties that IBill is an internet service provider under the DMCA. There is also no dispute between the parties that IBill adopted its termination policy before the alleged infringements occurred.

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F.Supp 2d 1146, 1177 (C.D.Cal.2002); *see also Costar Group, Inc. v. LoopNet, Inc.*, 164 F.Supp.2d 688, 704 (D.Md.2001). Therefore, an internet service provider that seeks to fall within the safe harbors provided by the DMCA, must adopt a policy that terminates the infringing user, not just the content. IBill has submitted several versions of its infringement policy, the most recent of which states:

> IBill may, its discretion (sic), disable and/or terminate the accounts of any IBill client who is accused of infringing the rights of others. If you believe that your work has been copied in a way that constitutes copyright infringement, or your intellectual property rights have been otherwise violated, please provide IBill's Copyright Agent the following information:
>
> 1. an electronic or physical signature of the person authorized to act on behalf of the owner of the copyright;
>
> 2. a description of the copyrighted work, and a description of where the work is located;
>
> 3. your address, telephone number, and email address;
>
> 4. a statement by you that you have a good faith belief that the use of the work is not authorized by the copyright owner, agent, or the law;

> 5. a statement by you, that under penalty of perjury, that the above information is accurate and that you are the copyright owner or authorized to act on the owners's behalf.
>
> Please send such notice to . . .

II Devito Decl., Exh. B, at 40 (Copyright Policy, 12/9/03). The Court notes that this policy states that it will terminate or disable the accounts of IBill clients who are accused of infringing third-party copyrights. Therefore, there is no genuine issue of material fact that IBill has adopted a policy that terminates repeat infringers in appropriate circumstances.

ii. *Reasonable Policy Implementation*

Perfect 10 contends that IBill has not reasonably implemented its policy. IBill replies that its DMCA immunity cannot be defeated by individual instances of non-enforcement because Congress requires reasonable implementation of the policy rather than perfect implementation. IBill also argues that it had no legal obligation under § 512(i) unless the notices of infringement were substantially DMCA compliant. IBill is correct that Congress requires reasonable implementation of a repeat infringer policy rather than perfect implementation. *See* 17 U.S.C. § 512(i)(1)(A). During oral argument, Perfect 10 argued that there is a genuine issue of material fact that IBill does not reasonably implement its repeat infringer policy because IBill has failed to produce its DMCA-notice log. However, the DMCA does not require the internet service provider to keep a log of its notifications. IBill has submitted

the actual DMCA-notifications it has received which are sufficient to demonstrate that IBill tracks its notifications. II DeVito Decl., Exhs. P-T.

Perfect 10 has submitted notifications that Perfect 10 or its counsel sent to IBill of infringements of Perfect 10's copyrights. II Zadeh Decl., ¶ 29, Exhs. 19-33. Exhibit 19 is an email dated August 24, 2001, sent from Perfect 10's counsel to IBill, which identifies 12 websites that are IBill clients which Perfect 10 states have infringements of Perfect 10's and third-party copyrights. II Zadeh Decl., Exh. 19 at 204. The email only identifies the websites that contain the allegedly infringing material, it does not identify the URLs of the images nor does it identify which of Perfect 10's images are being infringed. Under § 512(c)(3)(A)(ii) and (iii), DMCA-compliant notification must identify the copyrighted work claimed to have been infringed and the material that is claimed to be infringing with "information reasonably sufficient to permit the service provider to locate the material." This notification does not fulfill either of those requirements because it does not identify Perfect 10's images or give IBill sufficient information to locate the infringing material. These websites may contain more than one hundred images at different URLs; it is Perfect 10's responsibility, under the DMCA, to provide IBill with enough information to allow IBill to locate the infringing material. The Court finds that the August 21, 2001 email does not substantially comply with the requirements of the DMCA and therefore, does not constitute proper notification under § 512(c)(3)(A).

The next notification is an email from Norman Zadeh, the President of Perfect 10, dated August 28, 2001 which

identifies a Perfect 10 copyrighted image that appeared on celebclub.com on August 19, 2001 by its URL, celebclub.com/parto/New/080301/Kovari-Kristina/nif.gif. II Zadeh Decl., Exh. 21 at 209. This email identifies one image by its URL in a manner that allows IBill to locate the infringing image. Although it does not comply with any of the other requirements of § 512(c)(3)(A), it does provide IBill with sufficient information to locate the allegedly infringing material and, as such, substantially fulfills the requirements of § 512(c)(3)(A).

Exhibits 20 and 22-33 all suffer from the same deficiencies as Exhibit 19. They contain emails from Norman Zadeh to IBill that make general allegations of copyright infringement and do not provide the exact location of the infringing images and do not identify the Perfect 10 images that are being infringed. II Zadeh Decl., Exh. 20, 22-33. IBill notes this problem in one of its emails to Norman Zadeh which states: "The point I am trying to make is that without an URL (www.***.com) I cannot attempt to figure out each URL." II Zadeh Decl., Exh. 29 at 220.[9]

Perfect 10 also argues that "[d]espite the fact that Perfect 10 complained to IBill about the website femalecelebrities.com on at least 7 separate occasions", a Concordance electronic search of IBILL's document production revealed only two documents containing the term "femalecelebrities.com." II Zadeh Decl., ¶ 89. However,

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9. Perfect 10 has also submitted a letter to IBill that accompanied a 22,000 page document production to IBill as notification. The letter is almost identical to the letters sent to Internet Key, CCBill, and CWIE. The letter is discussed in Sections III.A.2.b.ii, *infra*.

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Perfect 10 has not identified the DMCA-compliant notification that Perfect 10 sent to IBill notifying IBill of infringements on femalecelebrities.com. Therefore, the Court finds that this evidence is not probative of IBill's failure to reasonably implement its repeat infringer policy.

Therefore, Perfect 10 has only identified a single notification, the email dated August 28, 2001, that provides IBill with sufficient notification to locate an allegedly infringing image on the website celebclub.com. On August 27, 2001, IBill sent Perfect 10 an email stating that celebclub.com's IBill account was suspended. II DeVito Decl., Exh. T at 186. In IBill's interrogatory responses, IBill admitted that celebclub was a client of IBill as of September 30, 2003. II Zadeh Decl., Exh. 16 at 169. Perfect 10 has not presented the Court with any evidence to demonstrate that the infringing image remained on celebclub.com after IBill received the August 28, 2001 notification.

The Court finds that, as to Perfect 10's copyrights, Perfect 10 has not raised a genuine issue of material fact that IBill did not reasonably implement its repeat infringer policy or that IBill has not met the threshold requirements in § 512(i).[10]

---

10. Perfect 10 has also submitted documents referring to alleged violations of the rights of publicity of celebrities on IBill's clients' websites and violations of third-party copyrights. IBill is asserting the safe harbor provision under § 512(a) as a defense to Perfect 10's Claim 1 for copyright infringement. Perfect 10's Claim 1 for copyright infringement alleges violations of Perfect 10's copyrights. Evidence of infringements of third-party copyrights and violations

(Cont'd)

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b. **Safe Harbor Under § 512(a)**

IBill argues that it falls within the safe harbor in § 512(a) which provides:

> a) Transitory digital network communications. A service provider shall not be liable for monetary relief, or, except as provided in subsection (j), for injunctive or other equitable relief, for infringement of copyright by reason of the provider's transmitting, routing, or providing connections for, material through a system or network controlled or operated by or for the service provider, or by reason of the intermediate and transient storage of that material in the course of such transmitting, routing, or providing connections, if–

(Cont'd)
of the right of publicity are not relevant to Perfect 10's claim for copyright infringement.

During oral argument, Perfect 10 argued that notices of third-party copyrights should be considered by the Court in determining whether IBill reasonably implements its termination policy. To support its argument, Perfect 10 relies on *Ellison v. Robertson*, 357 F.3d 1072, 1080 (9th Cir. 2004), which held that AOL had not reasonably implemented its termination policy because the email address of AOL's copyright agent was inactive and therefore, notifications of copyright infringement went unheeded. *Ellison* did not hold that notifications of third-party infringements should be considered in determining whether AOL had reasonably implemented its termination policy. Therefore, Perfect 10's reliance on *Ellison* is misplaced.

(1) the transmission of the material was initiated by or at the direction of a person other than the service provider;

(2) the transmission, routing, provision of connections, or storage is carried out through an automatic technical process without selection of the material by the service provider;

(3) the service provider does not select the recipients of the material except as an automatic response to the request of another person;

(4) no copy of the material made by the service provider in the course of such intermediate or transient storage is maintained on the system or network in a manner ordinarily accessible to anyone other than anticipated recipients, and no such copy is maintained on the system or network in a manner ordinarily accessible to such anticipated recipients for a longer period than is reasonably necessary for the transmission, routing, or provision of connections; and

(5) the material is transmitted through the system or network without modification of its content.

17 U.S.C. § 512(a).

Perfect 10 argues that IBill does not fall within the safe harbor provided in § 512(a) because it does not transmit the infringing material at issue in this case. Perfect 10 argues

that § 512(a) only provides protection for internet service providers that transmit the allegedly infringing material, not other material, such as credit card information. Perfect 10 relies on *In re Aimster Copyright Litigation*, 252 F.Supp.2d 634, 659-660 (N.D.Ill.2002), to support its argument.

Perfect 10 relies on the section of § 512(a) that refers to the transmission of the material; it has failed, however, to address the section of § 512(a) which refers to the provision of a connection to the material. The section provides that "an internet service provider shall not be liable ... for infringement of copyright by reason of the provider's ... providing connections for material through a system or network controlled or operated by or for the service provider, or ..." § 512(a). IBill provides a connection to the material on its clients' websites through a system which it operates in order to provide its clients with billing services.

Perfect 10's reliance on *In re Aimster Litigation* is misplaced because that case dealt with the transmission of material, not the provision of a connection to the material. *See In re Aimster Litigation*, 252 F.Supp.2d at 659-660. The Court finds that there is no genuine issue of material fact that IBill has met the requirements of § 512(i) and § 512(a).

Therefore, the Court grants IBill's motion for summary judgment and finds that IBill is entitled to protection under the safe harbor provided in § 512(a).

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2. *Internet Key's Motion for Summary Judgment on Perfect 10's Copyright Claim*

Internet Key contends that it is entitled to summary judgment on Perfect 10's Claim 1 for copyright infringement because the claim falls within the safe harbor provided by the DMCA under § 512(d). Perfect 10 counters that Internet Key does not fall within the safe harbors provided by the DMCA because Internet Key has not adopted and implemented a reasonable repeat infringer policy.

As a preliminary matter, the Court notes that Perfect 10 has submitted evidence of infringements on Internet Key's Affiliate Websites that were displayed on the Internet prior to August 21, 2002 when Internet Key implemented its DMCA policy. *See, e.g.*, I Zadeh Decl., ¶ 43, Exh. 33. Internet Key has not submitted a DMCA policy that was provided to its clients prior to August 2002 as required under § 512(i). Therefore, Internet Key has not met the threshold requirements of § 512(i) for the period before August 2002 and Perfect 10 may maintain its claim for copyright infringement that occurred prior to August 21, 2002.

a. **Direct Infringement**

Perfect 10 argues that Internet Key is not entitled to protection under the DMCA because it is a direct copyright infringer and therefore, not merely an internet service provider. Perfect 10's basis for this argument is that since some of the employees of WCD Enterprises, which is also owned by Freeman, own some of the Affiliate Websites, Internet Key is liable for the infringements on those websites.

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Perfect 10 relies on *H.A.S. Loan Serv., Inc. v. McColgan*, 21 Cal.2d 518, 523, 133 P.2d 391 (1943), to support its argument that a corporate entity cannot avoid liability when it splits its business functions with another related corporation and that Internet Key should be considered the alter ego of WCD Enterprises. An alter ego theory of liability would require Perfect 10 to demonstrate, as its prima facie case (1) that there is such unity of interest and ownership that the separate personalities of [two entities] no longer exist and (2) that failure to disregard [their separate identities] would result in fraud or injustice." *American Tel. & Telegraph Co. v. Compagnie Bruxelles Lambert*, 94 F.3d 586, 591 (9th Cir. 1996). The fact that some of the Affiliate Websites are owned by the employees of a separate company which is owned by the President of Internet Key does not raise a genuine issue of material fact that there is such unity of interest and ownership that the separate personalities of Internet Key and WCD Enterprises no longer exist. Furthermore, Perfect 10 has not presented evidence that WCD Enterprises owns the Affiliate Websites, but that certain employees of WCD Enterprises own the Affiliate Websites. Even if Perfect 10 had raised a genuine issue of material fact that WCD Enterprises was the alter ego of Internet Key, Perfect 10 has not provided evidence that there is a unity of interest between WCD Enterprises' employees and the company WCD Enterprises. Therefore, the Court finds this argument without merit.

Perfect 10 also notes that sometimes, when an Affiliated Website is accessed through SexKey, the words "sexkey.com" appear in the URL. I Zadeh Decl., ¶ 65, Exh. 51. However, Perfect 10 has not provided the Court with any precedent

that this fact alone imparts direct infringer liability onto Internet Key without demonstrating that Internet Key or its employees actually engaged in the infringing conduct. Infringement occurs when a defendant violates one of the exclusive rights of the copyright holder. 17 U.S.C. § 501(a). A plaintiff can establish direct infringement by demonstrating that a defendant used the copies in any of the ways described under 17 U.S.C. § 106, which include: (1) reproduction of the copyrighted work, (2) preparation of derivative works based upon the copyrighted work, (3) distribution of copies of the copyrighted work to the public by sale or other transfer of ownership, or (4) display of the copyrighted work publicly. 17 U.S.C. § 106. In order to prevail, defendants must "actively engage in" and "directly cause" one of the activities recognized in the Copyright Act. *See Perfect 10 v. Cybernet*, 213 F.Supp.2d 1146, 1168 (C.D.Cal.2002) (*citing Religious Tech. Ctr. v. Netcom On-Line Communication Servs., Inc.*, 907 F.Supp. 1361 (N.D.Cal. 1995); *Sega Enters., Ltd. v. MAPHIA*, 948 F.Supp. 923, 931 (N.D.Cal. 1996); *Playboy Enters., Inc. v. Russ Hardenburgh, Inc.*, 982 F.Supp. 503 (N.D.Ohio)). Without evidence that Internet Key actively engaged in or directly caused the alleged infringements, this argument is equally unavailing.[11]

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11. Perfect 10 also argues that Internet Key's website, sexkey.com, contains "infringements of celebrities." I Zadeh Decl., ¶ 13, Exh. 4. However, the printouts of sexkey.com do not contain a single image of a celebrity but merely list their names. *Id.* The Court fails to see how a list of names can constitute a copyright violation pursuant to 17 U.S.C. § 501(a). Therefore, the Court finds this argument without merit.

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b. **Threshold Requirements Under § 512(i)**

Perfect 10 contends that Internet Key does not satisfy the threshold requirements under § 512(i). To reiterate, § 512(i) requires service providers to: (1) adopt a policy that provides for the termination of service access for repeat copyright infringers in appropriate circumstances; (2) implement that policy in a reasonable manner; and (3) inform their clients of the policy. *See Ellison v. Robertson*, 357 F.3d 1072, 1080 (9th Cir. 2004). Perfect 10 does not dispute that Internet Key informs the webmasters of its Affiliate Websites ("Affiliate Webmasters") of its policy. Therefore, the two remaining issues before the Court are whether Internet Key has adopted a policy that provides for the termination of repeat infringers in appropriate circumstances and whether Internet Key implements that policy in a reasonable manner.

i. *Policy for Termination of Repeat Infringers*

Internet Key has submitted its copyright infringement policy. Dykeman Decl., ¶ 14, Exh. A. Perfect 10 argues that the policy fails on its face because "it is entirely possible for a website owned by a given webmaster to receive copyright infringement complaints week after week and nonetheless to remain part of SexKey, provided that Internet Key does not receive complaints about . . . three different websites owned by the same webmaster." II Opp. at 10:17-21. Perfect

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10 bases its argument on the section of Internet Key's policy which refers to *webmasters*, which states:

Banned Webmaster

> If a webmaster, identified by either the webmaster's name, vendor ID or common*1094 ownership entity, has had three (3) websites which have been denied participation in the SexKey program in accordance with this policy, that webmaster will be denied participation in its program of any webmaster or website in its discretion.

II Dykeman Decl., Exh. A at 11. However, the policy also states that for *websites*, if Internet Key receives DMCA-compliant notification, Internet Key will:

> • Act expeditiously to remove links to, or disable access, to the allegedly infringing material
>
> • Take reasonable steps to promptly notify the accused subscriber that the Company has removed or disabled access to the allegedly infringing material.
>
> • Forward a copy of the written notification to the accused subscriber, and inform the accused subscriber of counter notification procedures.
>
> . . . . .

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Repeat Offenders

The participation of any website deemed to be a repeat offender will be terminated.

Banned Websites

Pending receipt of a Counter Notification, participation of the website subject to a Notification will be suspended. A website will be permanently prohibited from participating in the SexKey program upon receipt by the Company of a second Notification.

Id. The policy provides that Internet Key will disable access to an Affiliate Website after it receives a single notification of an infringement. It also provides that it will permanently ban a webmaster from Internet Key after it has received three notifications regarding websites of any particular webmaster. Therefore, Perfect 10's characterization of Internet Key's policy is incorrect.

Perfect 10 also argues that Internet Key has not adopted a reasonable termination policy because there is a discrepancy in the evidence regarding the identity of Internet Key's copyright agent. Internet Key's termination policy, which is located on its website, sexkey.com, states that Lawrence Walters is Internet Key's copyright agent. I Dykeman Decl., Exh. A at 8-9. During his deposition, Freeman stated that Internet Key's copyright agent is the company CSC in Delaware. I Cooper Decl., Exh. 1 at 121. Perfect 10 argues that Internet Key changed its copyright agent and did not

inform its subscribers of the change. However, Perfect 10 has not submitted any evidence that the copyright agent has changed or that notifications sent to Walters were not responded to by Internet Key. Internet Key may have more than one copyright agent or the company CSC may have hired Walters to be the individual copyright agent. Furthermore, every notification submitted as evidence in this case was addressed to Freeman, not Walters or CSC. Therefore, Internet Key likely has more than one individual who responds to notifications of copyright infringement.

The Court finds, therefore, that Perfect 10 has failed to raise a genuine issue of material fact that Internet Key has not adopted a policy that terminates repeat infringers in appropriate circumstances.[12]

ii. *Reasonable Policy Implementation*

Perfect 10 contends that Internet Key received substantially-compliant DMCA notifications and that Internet Key did not disable access to the infringing websites.[13] The

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12. Perfect 10 may argue that the fact that it takes three notifications to terminate a webmaster is not sufficient under § 512(i). However, § 512(i) specifically states that the internet service provider must adopt a policy that terminates "repeat infringers." In order for an infringer to be a "repeat" infringer, he or she must infringe at least twice. Therefore, the Court finds that Internet Key's policy of terminating a webmaster after 3 notifications is reasonable.

13. The Court notes that Internet Key is asserting the safe harbor provided under § 512(d) which adopts the notification and take down procedures identified in § 512(c)(3)(A). H.R. Rep. 105-551(II), WL at *57.

parties dispute whether Perfect 10 provided Internet Key with DMCA-compliant notification of infringements. Since Internet Key's DMCA policy was not adopted until August 21, 2002, the Court will only look at notifications that were received by Internet Key after August 21, 2002.

Perfect 10 states that in its October 17, 2002 document production to Internet Key, Perfect 10 provided Internet Key with thousands of pages of printouts from SexKey affiliated websites which infringed either Perfect 10's or celebrities' rights. I Zadeh Decl., ¶ 24, Exh. 14 (representative examples of the print-outs). Some of the print-outs contain the names of Perfect 10 models in the URLs. *Id.* On March 13, 2002, Internet Key received a list of names of Perfect 10 models. I Freeman Decl., ¶ 35, Exh. D, at 29-34. Internet Key states that the October 17, 2002 document production contained 22, 185 pages of documents. I Reply, at 7:3-11; *see also* I Zadeh Decl., ¶ 25, Exh. 15. Accompanying the production was a letter from Sean Morris of Arnold & Porter which states:

> With this letter I am sending you several boxes of documents that contain examples of the voluminous infringements on websites affiliated with Internet Key, Inc. ("SexKey") and other defendants in this case. These documents should assist you in assessing the scope of the infringements at issue in the above-referenced lawsuit and the potential damages SexKey.
>
> • The documents that accompany this letter represent examples of the infringements at issue

in this case; these documents are not the only instances of wrongful conduct by the defendants.

• The documents that accompany this letter contain examples of both (i) infringements of Perfect 10 material; and (ii) infringements of third-party copyrights and rights of publicity. These documents were collected from so-called "celebrity" sites, which are easily locatable and are comprised of images that clearly infringe the copyrights and publicity rights of Perfect 10 and others.

• The infringements of Perfect 10 material are readily identifiable, especially in connection with the information contained in the complaint, and all come from celebrity sites.

• To further aid you in your assessment of the potential damages your company faces in this case, we have often included a full-sized printout of the image that constitutes infringement of Perfect 10's material . . .

I Zadeh Decl., Exh. 15. Perfect 10 has also submitted evidence that despite its notification of these infringements, the websites that contained the images were still active in October 2003. I Zadeh Decl., ¶ 46, Exh. 35.[14] For example,

14. Internet Key objects to portions of Exhibit 35 of Zadeh's declaration because some of the pages were not produced until after January 16, 2004, the deadline for the completion of Phase I discovery in this matter. *See* II Kearney Decl., ¶¶ 11-12. This objection is overruled.

in October 2002, Perfect 10 produced an image of Perfect 10 model Genevieve Maylam printed from the website cpics.adultmasters.net. I Zadeh Decl., ¶ 14, Exh. 14, at 40. In October 2003, the same image was still available on the same website. I Zadeh Decl., ¶ 46, Exh. 35, at 1041.

The issue before the Court, therefore, is whether the notice provided by Perfect 10 is substantially DMCA-compliant. If the notice is substantially DMCA-compliant, then Perfect 10 has raised a genuine issue of material fact that Internet Key has not reasonably implemented its termination policy.

First, Internet Key objects to this evidence because it argues that post-litigation notices cannot be considered for purposes of the DMCA. To support its argument, Internet Key relies on *Hendrickson v. Ebay, Inc.*, 165 F.Supp.2d 1082, 1092 n. 12(C.D.Cal.2001). However, in that case, the Court found that a discovery response by the plaintiff in that case was not DMCA-compliant because it was not under oath, did not attest to a good faith belief of the alleged infringements, and did not attest to the accuracy of the allegations. *Id.* The Court did not state that the discovery response was insufficient because it was provided after the complaint was filed. *Id.* Therefore, Internet Key's reading of the case is incorrect.

Under § 512(c)(3)(A)(ii), DMCA-compliant notification requires that the accusing party identify the copyrighted work claimed to have been infringed, or, if multiple copyrighted works at a single online site are covered by a single notification, provide a representative list of such works at

that site. The notification requirements also require that the notification contain a statement that the information in the notification is accurate, under penalty of perjury, that the complaining party is authorized to act on behalf of the owner of an exclusive right that is allegedly infringed. § 512(c)(3)(A)(vi). Perfect 10's letter states that the document production contains infringements by Internet Key and the other defendants in this case of Perfect 10's copyrights and the copyrights of third parties. However, the letter accompanying the document production does not identify which documents were found on Internet Key's Affiliate Websites. The letter also does not contain a statement that the information in the notification is accurate. The letter also does not state that the author has a good faith belief that the information in the letter is accurate nor is there a declaration under penalty of perjury. The letter does state that the enlarged images are Perfect 10's images and include the specific URLs of the images. Therefore the letter identifies which images are infringements of Perfect 10's copyrights; however, the letter does not identify Perfect 10's copyrights themselves, only the infringing images.[15] Under § 512(c)(3)(A)(ii) & (iii), the notification is required to identify both the copyrighted image and the infringing image. The purpose behind the notice requirement under the DMCA is to provide the internet service provider with adequate information to find and examine the allegedly infringing material expeditiously. *Hendrickson v. Amazon.Com, Inc.*, 298 F.Supp.2d 914, 917 (C.D.Cal.2003). Congress' intent was that both the copyright owner and the [internet service provider] cooperate with each

15. The Court also notes that many Perfect 10 models have appeared in a variety of non-Perfect 10 venues such as Playboy, Penthouse, and other websites. III Spillane Reply Decl., Exh. 1 at 4.

other to detect and deal with copyright infringement that takes place on the Internet. *Id.* at 916-17.

The Court finds that Perfect 10's blanket statement that infringements of Perfect 10's copyrights are contained within 22,000 pages of documents without identification of Perfect 10's copyrights, without an identification of which documents were printed off of Internet Key's Affiliate Websites, and without a statement that the notification is accurate does not constitute notice that is substantially compliant with the requirements of § 512(c)(3)(A). Perfect 10 has not identified any other DMCA-compliant notices sent to Internet Key after Internet Key instituted its repeat infringer policy to trigger the implementation of Internet Key's policy. In the absence of evidence of DMCA-compliant notice, the Court finds that Perfect 10 has failed to raise a genuine issue of material fact that Internet Key failed to implement its termination policy in a reasonable manner. Therefore, there is no genuine issue of material fact that Internet Key has met the threshold requirements under § 512(i).

c. **Safe Harbor Under §§ 512(d) and 512(a)**[16]

Section 512(d) states:

> (d) Information location tools. A service provider shall not be liable for monetary relief, or, except

16. Internet Key did not raise the safe harbor under § 512(a) in its summary judgment motion. During oral argument, the Court invited Internet Key to submit supplemental briefing regarding § 512(a). Internet Key filed a supplemental brief on May 20, 2004. Perfect 10 filed an opposition on May 27, 2004.

as provided in subsection (j), for injunctive or other equitable relief, for infringement of copyright by reason of the provider referring or linking users to an online location containing infringing material or infringing activity, by using information location tools, including a directory, index, reference, pointer, or hypertext link, if the service provider–

(1) (A) does not have actual knowledge that the material or activity is infringing;

(B) in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent; or

(C) upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material;

(2) does not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity; and

(3) upon notification of claimed infringement as described in subsection (c)(3), responds expeditiously to remove, or disable access to, the material that is claimed to be infringing or to be the subject of infringing activity, except that, for purposes of this paragraph, the information described in subsection (c)(3)(A)(iii) shall be

> identification of the reference or link, to material or activity claimed to be infringing, that is to be removed or access to which is to be disabled, and information reasonably sufficient to permit the service provider to locate that reference or link.

17 U.S.C. § 512(d).

Perfect 10 contends that Internet Key does not fall within the safe harbor provided by § 512(d) because Internet Key (1) does not use an information location tool, (2) has actual knowledge of infringements, (2) is aware of facts or circumstances from which infringing activity is apparent.

Perfect 10 argues that Internet Key does not use an information location tool as defined in § 512(d) because Internet Key is not like Yahoo! or Google which provide links to millions of websites with whom it has no relationship. Perfect 10 reasons that because Internet Key merely links to a relatively small universe of websites with whom it has in place contractual relationships and established review procedures, it is not entitled to protection under § 512(d). Section 512(d) does not state that the safe harbor is limited to internet service providers that provide links to millions of websites. Nor does § 512(d) state that the use of an information location tool is limited to internet service providers that do not have contractual relationships with their affiliate websites. Therefore, these arguments are without merit.

Section 512(d) refers to service providers who refer or link users to an online location containing infringing material

or infringing activity, by using information location tools, including a directory, index, reference, pointer, or hypertext link. § 512(d). Internet Key's sexkey.com website provides that function and is therefore covered by § 512(d).

Pursuant to § 512(d), the internet service provider must also (1) not be aware of facts or circumstances from which infringing activity is apparent and (2) not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity. Perfect 10 argues that Internet Key fails both of these requirements. Perfect 10 argues that Internet Key should have known there were copyright infringements on its clients' websites because of the disclaimers on some of those websites. The disclaimers generally claim that the copyrighted images are in the public domain or that the webmaster is posting the images for newsworthy purposes. I Zadeh Decl., Exh. 22. These disclaimers are not sufficient to raise a red flag of copyright infringement. Therefore, Perfect 10 has not demonstrated that Internet Key was aware of facts or circumstances from which infringing was apparent.

The second requirement is that the internet service provider not receive a direct financial benefit directly attributable to the infringing activity when it has the right and ability to control such activity. A right and ability to control infringing activity, "as the concept is used in the DMCA, cannot simply mean the ability of a service provider to remove or block access to materials posted on its website or stored in its system." *Costar Group, Inc. v. Loopnet, Inc.*, 164 F.Supp.2d 688, 704 (D.Md.2001). Internet Key's right

and ability to control infringing activity is limited to disconnecting the webmasters' access to Internet Key's service. That type of control is not sufficient, under the DMCA, to demonstrate a "right and ability to control" the infringing activity. As recognized in *Perfect 10 v. Cybernet Ventures, Inc.*, 213 F.Supp.2d 1146, 1181 (C.D.Cal.2002), "closing the safe harbor based on the mere ability to exclude users from the system is inconsistent with the statutory scheme." *Id.* Since Internet Key does not have a right and ability to control the infringing activity, the Court need not address whether Internet Key receives a direct financial benefit from the infringing conduct.

Additionally, Internet Key serves another function. Namely, when a user goes to one of Internet Key's Affiliate Websites, the user is directed to the Internet Key sign-up page for age verification purposes. I Freeman Decl., ¶¶ 5-8. This function falls outside of the parameters of § 512(d) because Internet Key is not referring users to other websites through a directory, index, reference, pointer, or hypertext link. However, this function falls within the purview of § 512(a) which provides:

> a) Transitory digital network communications. A service provider shall not be liable for monetary relief, or, except as provided in subsection (j), for injunctive or other equitable relief, for infringement of copyright by reason of the provider's transmitting, routing, or providing connections for, material through a *1099 system or network controlled or operated by or for the service provider, or by reason of the intermediate

and transient storage of that material in the course of such transmitting, routing, or providing connections, if-

(1) the transmission of the material was initiated by or at the direction of a person other than the service provider;

(2) the transmission, routing, provision of connections, or storage is carried out through an automatic technical process without selection of the material by the service provider;

(3) the service provider does not select the recipients of the material except as an automatic response to the request of another person;

(4) no copy of the material made by the service provider in the course of such intermediate or transient storage is maintained on the system or network in a manner ordinarily accessible to anyone other than anticipated recipients, and no such copy is maintained on the system or network in a manner ordinarily accessible to such anticipated recipients for a longer period than is reasonably necessary for the transmission, routing, or provision of connections; and

(5) the material is transmitted through the system or network without modification of its content.

17 U.S.C. § 512(a). The section provides that "an internet service provider shall not be liable . . . for infringement of copyright by reason of the provider's . . . providing connections for material through a system or network controlled or operated by or for the service provider, or . . ." § 512(a). Internet Key provides a connection to the material on its clients' websites through a system which it operates in order to provide its clients with adult verification services. Therefore, Internet Key's services fall within the purview of both §§ 512(a) and 512(d).

The Court finds that there is no genuine issue of material fact that Internet Key is entitled to the safe harbors pursuant to §§ 512(a) and 512(d). Based on the foregoing, Internet Key's motion for summary judgment for infringements after August 21, 2002 based on the safe harbors under § 512(d) and § 512(a) is granted. However, Internet Key's motion for summary judgment on Perfect 10's copyright infringement claim for infringements before August 21, 2002 is denied.

3. *CWIE's and CCBill's Motions for Summary Judgment on Perfect 10's Copyright Claim*

Since the parties address many of the issues regarding CWIE and CCBill together, the Court will address these Defendants together for issues where the evidence overlaps. CWIE and CCBill assert that they are entitled to summary judgment on Perfect 10's Claim 1 for copyright infringement because they fall within the safe harbors provided by the DMCA under § 512.

Appendix B

a. **Threshold Requirements Under § 512(i)**

Perfect 10 argues that CWIE and CCBill do not reasonably implement their repeat infringer policies under § 512(i).[17] Perfect 10 cites to CWIE and CCBill's DMCA notice spreadsheet and argues that many of the webmaster names are not included in the spreadsheet. III Fisher Decl., Exh. C. Perfect 10 contends that CWIE and CCBill do not track the actual webmasters of the websites for which they receive notifications. The Court has reviewed the spreadsheet and finds that a few of the webmaster names are missing from notifications that were either resolved by the copyright owner and the webmaster or were not DMCA-compliant. The Court finds that the fact that a few of the webmaster names are missing from the spreadsheet in instances where the notice was deficient or the issue was resolved is not sufficient to raise a genuine issue of material fact that CWIE and CCBill do not reasonably implement their repeat infringer policies.

Perfect 10 has submitted notifications of infringement of Perfect 10's copyrights that it sent to CCBill and CWIE which it claims are DMCA-compliant. The first is a letter from Perfect 10's counsel to Fisher dated August 10, 2001. III Zadeh Decl., Exh. 14. The letter identifies several websites which Perfect 10 claims contain infringements of Perfect 10's

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17. Perfect 10 does not assert other violations of § 512(i) against these Defendants.

CWIE and CCBill adopted their policies in 1999. Since Perfect 10 does not allege any infringements that pre-date 1999, the Court finds that CWIE's and CCBill's repeat infringer policies were in place during the entire period of alleged infringements.

copyrights. *Id.* at 144. The letter only identifies the websites that contain the allegedly infringing material, it does not identify the URLs of the images nor does it identify which of Perfect 10's images are being infringed. Under § 512(c)(3)(A)(ii) and (iii), DMCA-compliant notification must identify the copyrighted work claimed to have been infringed and the material that is claimed to be infringing with "information reasonably sufficient to permit the service provider to locate the material." This notification does not fulfill either of those requirements because it does not identify Perfect 10's images or give CCBill and CWIE sufficient information to locate the infringing material. These websites may contain more than one hundred images at different URLs; it is Perfect 10's responsibility, under the DMCA, to provide these Defendants with enough information to allow them to locate the infringing material. The Court finds that the August 10, 2001 letter does not substantially comply with the requirements of the DMCA and therefore, does not constitute proper notification under § 512(c)(3)(A).[18]

The next notification is an email Norman Zadeh sent to Fisher on February 6, 2002 which identifies websites which contain images of celebrities but does not identify websites which contain Perfect 10's copyrighted images. III Zadeh Decl., Exh. 17. Therefore, this email does not comply.

The next notification is a letter from Perfect 10's counsel dated March 12, 2002 which suffers from the same deficiency as Exhibit 14 above. III Zadeh Decl., Exh. 18. It does not

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18. Perfect 10 also cites to Exhibit 16 of the Zadeh Declaration but it has failed to include it in the declaration.

identify the allegedly infringing material with enough specificity to allow CCBill and CWIE to locate the information. Exhibit 20 (email dated March 28, 2002) also suffers from the same lack of specificity.

Perfect 10 also identifies Exhibit I to the Complaint as notification of violations of Perfect 10's copyrights. Exhibit I to the Complaint lists websites that Perfect 10 contends contain Perfect 10 infringements. *See* Compl., Exh. I. The Court finds that Exhibit I is not DMCA-compliant because it does not give the Defendants sufficient notification to allow them to locate the allegedly infringing material.[19] Perfect 10 has also submitted its RICO Case Statement which Perfect 10 produced to Defendants on December 19, 2002. III Zadeh Decl., Exh. 26 at 317-321. The RICO Case Statement does not identify the URLs of the allegedly infringing material or identify Perfect 10's copyrighted images. *Id.* Therefore, this notification does not substantially comply with the requirements of § 512(c)(3)(A).

Perfect 10 also identifies a July 14, 2003 email sent to Fisher which had attached to it an Excel spreadsheet which identifies websites and the names of Perfect 10 models who appear on those websites. III Zadeh Decl., Exh. 29. Perfect 10 argues that this spreadsheet contains the URLs of the infringing images, however, the Court is unable to locate a single URL that is the URL for the actual infringing image.

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19. Perfect 10 has also submitted a letter dated October 16, 2002 that is nearly identical to the letter sent to Internet Key that accompanied the same 22,000 page document production to all of the Defendants. III Zadeh Decl., Exh. 25. See Section IV.2.b.ii, *supra*, for a discussion of this letter.

Id. Most of the URLs provided refer to the "members only" area of the website, not the URL of the specific image within the "members only" area of the website. *Id.* Again, this is not the type of notification contemplated by § 512(c)(3)(A).[20]

Perfect 10 has also submitted several emails from Perfect 10 to CWIE regarding password hacking websites that provide passwords to Perfect 10's website, perfect10.com, hosted by CWIE. III Zadeh Decl., Exhs. 72, 75, 76, 77 & 78. Password hacking websites are free websites which post passwords to subscription websites. Perfect 10 argues that it provided DMCA-compliant notification regarding these websites and CWIE did not discontinue its hosting of these websites. However, Perfect 10 has not submitted any evidence that the use of the passwords on these websites actually resulted in the infringement of Perfect 10's copyrights. Perfect 10 has submitted a print-out of its server log and Zadeh's declaration which states that there were attempted accesses from crazypasses.com on September 18, 2002. III Zadeh Decl., ¶ 101, Exh. 88. However, attempted access to Perfect 10's website is not sufficient to demonstrate copyright infringement which requires that the images on

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20. During his deposition, Fisher was asked whether he could act on the information that was provided in the spreadsheet and responded "yes." III Cooper Decl., Exh. 2 at 30:16-21. Perfect 10 argues that Fisher admitted that he had received DMCA-compliant notification based on this deposition testimony. However, Fisher did not state that the notification was DMCA-compliant or that the information allowed CCBill and CWIE to expeditiously locate the infringing material. Therefore, the Court finds Perfect 10's argument without merit.

Perfect 10's website were actually copied onto the user's computer when the user accessed the website. *See* 17 U.S.C. § 106. Therefore, Perfect 10's has not demonstrated that CWIE's hosting of these password hacking websites resulted in copyright infringement.

Perfect 10 has not provided the Court with any substantially compliant DMCA-notifications that were sent to CCBill and CWIE. Perfect 10 may not make an end-run around the requirements of the DMCA by providing the Defendants with notification that does not substantially comply with the requirements of § 512(c)(3)(A). The Court finds that Perfect 10 has not raised a genuine issue of material fact that CCBill and CWIE did not reasonably implement their repeat infringer policies.[21]

b. **Safe Harbor Under § 512(a) and CCBill**

CCBill argues that it falls within the safe harbor in § 512(a) which provides:

> a) Transitory digital network communications. A service provider shall not be liable for monetary relief, or, except as provided in subsection (j), for injunctive or other equitable relief, for infringement of copyright by reason of the provider's transmitting, routing, or providing

21. Perfect 10 has also submitted notifications by third-party copyright holders. However, as the Court has already stated, *supra*, notifications of third-party copyright infringements are not relevant to Perfect 10's claim for copyright infringement and the Defendants DMCA defense to that claim.

connections for, material through a system or network controlled or operated by or for the service provider, or by reason of the intermediate and transient storage of that material in the course of such transmitting, routing, or providing connections, if–

(1) the transmission of the material was initiated by or at the direction of a person other than the service provider;

(2) the transmission, routing, provision of connections, or storage is carried out through an automatic technical process without selection of the material by the service provider;

(3) the service provider does not select the recipients of the material except as an automatic response to the request of another person;

(4) no copy of the material made by the service provider in the course of such intermediate or transient storage is maintained on the system or network in a manner ordinarily accessible to anyone other than anticipated recipients, and no such copy is maintained on the system or network in a manner ordinarily accessible to such anticipated recipients for a longer period than is reasonably necessary for the transmission, routing, or provision of connections; and

> (5) the material is transmitted through the system or network without modification of its content.

17 U.S.C. § 512(a). Perfect 10 argues that CCBill does not fall within the safe harbor provided in § 512(a) because it does not transmit the infringing material at issue in this case. Perfect 10 argues that § 512(a) only provides protection for internet service providers that transmit the allegedly infringing material, not other material, such as credit card information. Perfect 10 relies on *In re Aimster Copyright Litigation*, 252 F.Supp.2d 634, 659-660 (N.D.Ill.2002), to support its argument.

Perfect 10 relies on the section of § 512(a) that refers to the transmission of the material; it has failed, however, to address the section of § 512(a) which refers to the provision of a connection to the material. The section provides that "an internet service provider shall not be liable ... for infringement of copyright by reason of the provider's ... providing connections for material through a system or network controlled or operated by or for the service provider, or ..." § 512(a). CCBill provides a connection to the material on its clients' websites through a system which it operates in order to provide its clients with billing services. Perfect 10 argues that CCBill "blocks" access to these websites and does not provide a connection to the websites because it prevents consumers from accessing the websites if they have not first paid a fee to CCBill. CCBill does not block access to these websites; the webmasters of the websites block consumers from accessing the websites unless those consumers pay for access through CCBill. Therefore, the Court finds this argument without merit.

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Perfect 10's reliance on *In re Aimster Litigation* is misplaced because that case dealt with the transmission of material, not the provision of a connection to the material. *See In re Aimster Copyright Litigation*, 252 F.Supp.2d 634, 659-660 (N.D.Ill.2002). The Court finds that there is no genuine issue of material fact that CCBill is entitled to protection under the safe harbor provided by § 512(a).

Therefore, the Court grants CCBill's motion for summary judgment and finds that CCBill is protected by the safe harbor under § 512(a).

c. **Safe Harbor Under § 512(c) and CWIE**

CWIE argues that it is entitled to protection under the safe harbor provided in § 512(c)(1). Sections 512(c)(1) states:

> (1) In general. A service provider shall not be liable for monetary relief, or, except as provided in subsection (j), for injunctive or other equitable relief, for infringement of copyright by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider, if the service provider–
>
> (A) (i) does not have actual knowledge that the material or an activity using the material on the system or network is infringing;
>
> (ii) in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent; or

> (iii) upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material;
>
> (B) does not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity; and
>
> (C) upon notification of claimed infringement as described in paragraph (3), responds expeditiously to remove, or disable access to, the material that is claimed to be infringing or to be the subject of infringing activity.

17 U.S.C. § 512(c).[22] Perfect 10 argues that CWIE does not fulfill the requirements of § 512(c)(1) because (1) it has actual knowledge of Perfect 10's infringements on its clients' websites; (2) is aware of facts or circumstances from which infringing activity is apparent; (3) it has failed to expeditiously remove or disable access to infringing material of which it had knowledge; and (4) it receives a financial benefit directly attributable to the infringing activity and has the right and ability to control such activity.

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22. Section 512(c)(2) also requires that the internet service provider have a designated copyright agent to receive notification under § 512(c)(3). Perfect 10 does not contend that CWIE does not have such an agent.

Appendix B

i. *Knowledge*

Perfect 10 argues that CWIE cannot assert the safe harbor under § 512(c)(1) because it had knowledge of copyright infringements on its clients' websites. Perfect 10 relies on the notifications Perfect 10 sent to CWIE to support its argument. However, the Court has already found that those notifications did not comply with the requirements of § 512(c)(3)(A). Therefore, Perfect 10 cannot argue that CWIE had knowledge of infringements based on these notices. *Hendrickson v. Ebay,* 165 F.Supp.2d 1082, 1093 (C.D.Cal.2001) ("the court does not consider [those] defective notices when evaluating the actual or constructive knowledge prong of the safe harbor test.").

Perfect 10 also argues that CWIE was aware of facts or circumstances from which infringing activity was apparent. In including § 512(c)(1)(A)(ii), Congress contemplated obvious "pirate sites" where "sound recordings, software, movies, or books were available for unauthorized downloading, public performance"-in other words, "red flag" websites from which infringements would be apparent based on a cursory review of the website. H.R. Rep. 105-551(II) at 57. Congress described such websites as obviously infringing because they typically use words such as "pirate" or "bootleg" or slang terms in their URL, and header information to make their illegal purpose obvious, in the first place, to the pirate directories as well as other Internet users. *Id.* at 58. "Because the infringing nature of such sites would be apparent from even a brief and casual viewing, safe harbor status for a provider that views such a site and then establishes a link to it would not be appropriate." *Id.*

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Perfect 10 argues that CWIE hosted websites that obviously contained images of celebrities to which the webmasters did not own the copyrights. III Zadeh Decl., ¶ 76, Exh. 61. Perfect 10 has submitted print-outs from the websites that advertise images of celebrities. *See id.* The websites advertise images of celebrities; however, the Court does not find that the websites contain obvious infringements because the websites do not advertise themselves as pirate websites. *See id.* Furthermore, the Court finds that Perfect 10's argument that most celebrity websites contain stolen material and therefore CWIE should have known there were infringements on these websites without merit. As noted by Congress, "a directory provider would not be similarly aware because it saw one or more well known photographs of a celebrity at a site devoted to that person. The provider could not be expected, during the course of its brief cataloguing visit, to determine whether the photograph was still protected by copyright or was in the public domain; if the photograph was still protected by copyright, whether the use was licensed; and if the use was not licensed, whether it was permitted under the fair use doctrine." The Court finds that the advertisement of celebrity photos is not sufficient to raise a "red flag" that these websites were obviously pirate websites with infringing content.[23] Based on the foregoing, the Court finds that Perfect 10 has not raised a genuine issue of material fact that CWIE had actual or constructive knowledge of

23. During oral argument, Perfect 10 also cited to several disclaimers on websites affiliated with CCBill to support its argument that CWIE had "red flag" knowledge of copyright infringement. III Zadeh Decl., Exhs. 63 & 64. However, Perfect 10 has not provided any disclaimers on websites associated with CWIE. Therefore, this evidence is irrelevant to the Court's analysis of CWIE's knowledge.

infringements on its clients' websites. The Court also finds that there is no genuine issue of material fact that CWIE failed to expeditiously remove or disable access to infringing material of which it had knowledge.

ii. *Financial Benefit and Right and Ability to Control*

Perfect 10 argues that CWIE cannot assert safe harbor protection because it receives a direct financial benefit from the infringing activity on its clients' websites and has the right and ability to control the infringing activity on its clients' websites. 17 U.S.C. § 512(c)(B). A right and ability to control infringing activity, "as the concept is used in the DMCA, cannot simply mean the ability of a service provider to remove or block access to materials posted on its website or stored in its system". *Costar Group, Inc. v. Loopnet, Inc.*, 164 F.Supp.2d 688, 704 (D.Md.2001). CWIE's right and ability to control infringing activity is limited to disconnecting the webmasters' access to CWIE's service. That type of control is not sufficient, under the DMCA, to demonstrate a "right and ability to control" the infringing activity. As recognized in *Perfect 10 v. Cybernet Ventures, Inc.*, 213 F.Supp.2d 1146, 1181 (C.D.Cal.2002), "closing the safe harbor based on the mere ability to exclude users from the system is inconsistent with the statutory scheme." *Id.* Perfect 10 argues that the fact that CWIE reviews its websites for illegal material, such as child pornography and obscenity, takes CWIE out of the safe harbor provision because CWIE has the right and ability to do more than merely exclude users from its system. In *Cybernet*, the Court found that the fact that the defendant "prescreens sites, gives them extensive advice, [and] prohibits the proliferation of identical sites"

was sufficient additional control to fall outside of the safe harbor. However, the Court did not find that merely prescreening sites was enough. In this case, the Court finds that merely because CWIE reviews its sites to look for blatantly illegal and criminal conduct is not sufficient to close the safe harbor to CWIE. Such a reading of the statute would not be in line with the purpose of the DMCA to encourage internet service providers to work with copyright owners to locate and stop infringing conduct.

Since the Court finds that CWIE does not have a right and ability to control the infringing activity on its clients' websites, it need not reach the issue of whether CWIE receives a direct financial benefit from the allegedly infringing conduct.

Based on the foregoing, the Court finds that Perfect 10 has not raised a genuine issue of material fact that CWIE does not fall within the safe harbor under § 512(c). Therefore, the Court grants CWIE's motion for summary judgment and finds that CWIE is entitled to the protection provided in § 512(c).

4. *Perfect 10's RICO Claims*

Defendants argue that since they fall within the safe harbors provided by § 512 which limit liability for copyright infringement, their liability for Perfect 10's RICO violations should similarly be limited.[24] Perfect 10 argues that the

24. Perfect 10's RICO claims are based solely on predicate acts of criminal copyright infringement.

Appendix B

Defendants cannot assert the safe harbors under § 512 against its RICO claims because its RICO claims are predicated on (1) infringements of Perfect 10's copyrights and (2) infringements of third-party copyrights. The Defendants do not dispute that Perfect 10 has standing to maintain its RICO claims based on infringements of Perfect 10's copyrights. However, since the Court has already found that Defendants IBill, CCBill, CWIE, and Internet Key [25] are entitled to safe harbor protections under § 512 against Perfect 10's copyright claims, those safe harbors also provide these Defendants with protection against Perfect 10's RICO claims based on the infringements of Perfect 10's copyrights. The issue before the Court, therefore, is whether Perfect 10 has standing to allege RICO claims based on predicate acts of infringements of third-party copyrights.

The Ninth Circuit addressed the issue of statutory standing in *Mendoza v. Zirkle Fruit Co.*, 301 F.3d 1163, 1168-69 (9th Cir. 2002). The Ninth Circuit first examined the RICO statute which states that "any person injured in his business or property by reason of a violation of section 1962 of this chapter may sue therefor in any appropriate United States district court for civil damages." *Id.* at 1168. The Ninth Circuit identified the key issue in its analysis as determining whether the injury suffered by the plaintiffs "was by reason of" the defendants' conduct. *Id.* The Ninth Circuit referred to several cases, decided by the U.S. Supreme Court in the context of antitrust and RICO, which hold that "potential plaintiffs who have suffered a 'passed-on' injury-that is,

25. Internet Key is entitled to the safe harbor provisions of § 512 against Perfect 10's RICO claims for copyright infringements after August 21, 2002.

injury derived from a third party's direct injury-lack statutory standing." *Id.* In the Ninth Circuit, there are three factors that courts consider in determining whether an injury is too remote to allow the plaintiff statutory standing:

> (1) whether there are more direct victims of the alleged wrongful conduct who can be counted on to vindicate the law as private attorneys general; (2) whether it will be difficult to ascertain the amount of the plaintiff's damages attributable to defendant's wrongful conduct; and (3) whether the courts will have to adopt complicated rules apportioning damages to obviate the risk of multiple recoveries.

Id. at 1169. Perfect 10 is asserting that it has suffered an injury based on the Defendants' alleged infringements of third-party copyrights. Under the first factor, it is clear that the owners of the copyrights themselves are the more direct victims of the alleged wrongful conduct. Furthermore, Perfect 10 has not presented any evidence that those direct victims cannot assert their own rights on their own behalf. Under the second factor, the Court finds that it would be difficult to ascertain the amount of damages to Perfect 10 based on the Defendants' alleged infringements of third parties' copyrights. Perfect 10's injury is stated as a competitive injury-however, proving that violations of another party's copyrights have caused a competitive injury is too speculative to allow for the ascertainment of a damages amount. And finally, under the third consideration, it is also clear that the copyright holders themselves are entitled to damages if they demonstrate that the Defendants have violated their

copyrights. Therefore, the Court would have to apportion damages as to prevent double recovery by the copyright owners and Perfect 10.

During oral argument, Perfect 10 argued that the Second Circuit's opinion in *Commercial Cleaning Services, LLC v. Colin Service Systems, Inc.*, 271 F.3d 374 (2d Cir. 2001), supports its argument that it may assert the violations of third parties' copyrights as the predicate acts of its RICO claim. In *Commercial Cleaning*, the Second Circuit found that the competitor of a cleaning agency that was hiring illegal immigrants to underbid the competitor had standing to bring a RICO claim based on its competitive injury. *Id.* at 385. However, the Second Circuit also found that there were not more direct victims of the illegal activity who had standing to sue. "There is no class of potential plaintiffs who have been more directly injured by the alleged RICO conspiracy than the defendant's business competitors . . ." *Id.* In the case before this Court, the third-party copyright owners are the direct victims of the alleged infringement and may bring suit on their own behalf. Therefore, this case is distinguishable from the case at bar and does not support Perfect 10's argument that it has standing to assert the violations of third-parties' copyrights.

The Court finds that in consideration of these factors, Perfect 10 has not demonstrated that it has statutory standing to assert the violations of third parties' copyrights as the predicate acts of its RICO claim.

Therefore, IBill, CCBill, CWIE and Internet Key (limited to post-August 21, 2002 infringements) are entitled to the safe harbor provisions of § 512 against Perfect 10's RICO claims.

B. *Communications Decency Act*

The CDA provides immunity to providers and users of interactive computer services. It states that "[n]o provider or user of interactive computer service shall be treated as a publisher or speaker of any information provided by another content provider." 47 U.S.C. § 230(c)(1). In addition, the CDA states that "[n]o cause of action may be brought and no liability may be imposed under any State or local law that is inconsistent with this section." 47 U.S.C. § 230(e)(3). Congress placed two limitations on the grant of this broad immunity. The first is § 230(e)(2) which states that the CDA shall not be construed to limit or expand any law pertaining to intellectual property. 47 U.S.C. § 230(e)(2). The second is that immunity is not available for violations of federal criminal statutes. 47 U.S.C. § 230(e)(1).

Defendants assert that they are entitled to summary judgment on Perfect 10's state law claims because they are immune from prosecution for these claims under the CDA.

All of the Defendants seek summary judgment on the bases that they are immune from Perfect 10's Fifth Cause of Action for violation of rights of publicity, Sixth Cause of Action for unfair competition under the California Business & Professions Code §§ 17200, and Seventh Cause of Action for false and misleading advertising pursuant to California

Business & Professions Code § 17500 and California common law.[26] Defendants IBill, CWIE, and CCBill also assert that they are immune from prosecution for Perfect 10's Fourth Cause of Action for wrongful use of a registered trademark under California law.

Perfect 10 opposes summary judgment on the following grounds: 1) the CDA does not apply to intellectual property claims, 2) the Defendants' knowledge of infringements negates the CDA's protection, 3) the CDA does not protect the Defendants' alleged roles as distributors, and 4) the Defendants' roles in the promotion of obscenity and child pornography bar them from taking advantage of the CDA. Perfect 10 does not argue that the Defendants do not fulfill any of the other requirements of the CDA; for example, there is no genuine issue of material fact that all of the Defendants are providers and users of interactive computer services. Therefore, the Court does not address these additional requirements.

Since these arguments apply equally to all of the Defendants because they are legal arguments regarding the scope of the CDA and are not fact dependent, the Court addresses the Defendants collectively.

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26. Claim 6 also contains allegations of unfair competition under the Lanham Act. The Defendants have not asserted that they are immune from prosecution for this claim, therefore, the Court limits its discussion of Claim 6 to the alleged violations of California Business & Professions Code §§ 17200.

Appendix B

1. *Intellectual Property*

The CDA does not "limit or expand any law pertaining to intellectual property." 47 U.S.C. § 230(e)(2). Perfect 10 asserts that all four of its state law claims are based on intellectual property law and thus the CDA does not provide immunity for them. The Defendants argue that these claims are not intellectual property claims but state law tort claims. The Court will address each claim in turn.

a. **Wrongful Use of a Mark**

Perfect 10's Fourth Cause of Action alleges wrongful use of a registered mark in violation of Cal. Bus. & Prof.Code § 14335. It is generally understood that trademarks are intellectual property. *See, e.g., Allison v. Vintage Sports Plaques*, 136 F.3d 1443, 1448 (11th Cir. 1998) (holding that the three principal forms of intellectual property are copyright, patent, and trademark); *Shakespeare Co. v. Silstar Corp. of Am., Inc.*, 9 F.3d 1091, 1103-04 (4th Cir. 1993) (listing the areas of intellectual property as trademark, copyright, and patents); *White v. Samsung Elecs. Am., Inc.*, 989 F.2d 1512, 1516 (9th Cir. 1993) (discussing the different balances of public interest in patents, copyright, and trademark). Several cases have held that immunity under the CDA does not apply to federal trademark claims. *See Gucci Am., Inc. v. Hall & Assocs.*, 135 F.Supp.2d 409, 413 (S.D.N.Y. 2001) (holding that to immunize defendant from trademark claims would limit laws pertaining to intellectual property); *Ford Motor Co. v. GreatDomains.com, Inc.*, No. 00-CV-71544-DT, 2001 WL 1176319, at *1 (E.D.Mich. Sept. 25, 2001) (holding that if defendant violated federal trademark

laws the CDA would not provide immunity). Consequently, California's wrongful use of registered mark law also pertains to intellectual property because the law provides the same type of relief as the federal trademark laws under the Lanham Act, namely, protection for trademarks. Since the CDA does not extend immunity for Perfect 10's Claim 4 for wrongful use of a registered mark because such immunity would limit laws pertaining to intellectual property, Defendants IBill's, CCBill's, and CWIE's motions for summary judgment on this claim are denied.

b. Unfair Competition under California Business & Professions Code § 17200

Perfect 10 also points out that its Claim 6 for unfair competition arises from Defendants' trademark infringement, a violation of law pertaining to intellectual property. As discussed above, the CDA does not limit any law pertaining to intellectual property. *See* 47 U.S.C. § 230(e)(2). The issue here is whether the UCL based on alleged infringement of trademarks is a "law pertaining to intellectual property." The unfair competition law (the "UCL") itself makes no mention of intellectual property. *See* Cal. Bus. & Prof.Code § 17200 ("As used in this chapter, unfair competition shall mean and include any unlawful, unfair or fraudulent business act or practice and unfair, deceptive, untrue or misleading advertising and any act prohibited by Chapter 1 . . . of the Business and Professions Code"). While intellectual property law generally seeks to encourage creativity and invention, the purpose of the UCL is to preserve fair business competition. *See Cel-Tech Communications, Inc. v. Los Angeles Cellular Tel. Co.*, 20 Cal.4th 163, 180, 83 Cal.Rptr.2d 548, 560-61, 973 P.2d 527 (1999).

Infringing on a trademark is an unlawful business practice which may establish a violation of the UCL. *See Century 21 Real Estate Corp. v. Sandlin*, 846 F.2d 1175, 1178 (9th Cir. 1988) (holding that likelihood of confusion was the crucial issue for both trademark infringement and unfair competition). Perfect 10 argues that this makes the unfair competition statute a law pertaining to intellectual property. However, a violation of the UCL includes any business practice which may be unlawful, unfair, or fraudulent. *People v. McKale*, 25 Cal.3d 626, 631-32, 159 Cal.Rptr. 811, 813-14, 602 P.2d 731 (1979); *Wilkinson v. Times Mirror Corp.*, 215 Cal.App.3d 1034, 1052, 264 Cal.Rptr. 194, 206 (Cal.Ct.App. 1989). Accordingly, unfair competition encompasses anything that can properly called a business practice which at the same time is forbidden by law. *Wilkinson*, 215 Cal.App.3d at 1052, 264 Cal.Rptr. at 206. The fact that violations of intellectual property laws may create the underlying unfair or unlawful act for the UCL does not transform the statute into a law pertaining to intellectual property. Therefore, the immunity provided by the CDA does apply to Perfect 10's Claim 6 for unfair competition under the UCL.

c. **Right of Publicity**

The parties also dispute whether Perfect 10's Claim 5 for violations of the right of publicity pursuant to California Civil Code section 3344 and common law rights of publicity bring § 230(e)(2) into play. The California Supreme Court has held that the right of publicity is a form of intellectual property. *See Comedy III Productions, Inc. v. Gary Saderup, Inc.*, 25 Cal.4th 387, 399, 106 Cal.Rptr.2d 126, 135, 21 P.3d

797 (2001). This conclusion is buttressed by other courts and commentators. *See, e.g., ETW Corp. v. Jireh Pub., Inc.*, 332 F.3d 915, 928 (6th Cir. 2003) ("The right of publicity is an intellectual property right of recent origin which has been defined as the inherent right of every human being to control the commercial use of his or her identity."); 4 J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition, § 28.1 (4th ed. 2003) ("The right of publicity is property, and is properly categorized as a form of intellectual property."). In *Carafano v. Metrosplash.Com, Inc.*, 339 F.3d 1119, 1125 (9th Cir. 2003), the Ninth Circuit dismissed a right of publicity claim based on immunity granted under § 230(c)(1) of the CDA without any discussion of § 230(e)(2). However, since neither the Ninth Circuit nor the trial court, 207 F.Supp.2d 1055 (C.D.Cal.2002), performed any analysis as to whether the exclusion in § 230(e)(2) applied, it is unclear whether this issue was properly before the Ninth Circuit in that case. Since the weight of authority supports a finding that the right of publicity is an intellectual property right, the Court finds that claims under California's right of publicity statute and the common law are excluded from immunity under the CDA.

Therefore, the Court denies the Defendants' motions for summary judgment on Perfect 10's Claim 5 for violations of the right of publicity.

d. False Advertising Pursuant to California Business & Professions Code §§ 17500 and the Common Law

Finally, Perfect 10 contends that Claim 7 for false advertising pursuant to California Business & Professions Code § 17500 and California common law is an intellectual property claim and, as such, is excluded under § 230(e)(2) of the CDA. Perfect 10 argues that since it is alleging that the Defendants' affiliate webmasters have engaged in false advertising by misrepresenting the nature and source of the content on their websites and that such conduct constitutes violations of Perfect 10's intellectual property rights, the false advertising claims are also excluded from the immunities provided by § 230(e)(2) of the CDA. Perfect 10 does not cite to any authority to support its argument. Neither § 17500 nor California common law false advertising refer to intellectual property rights. *See* Cal. Bus. & Prof.Code § 17500;[27] *Chronicle Pub. Co. v. Chronicle Publications, Inc.*,

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27. Section 17500 provides:

> It is unlawful for any person, firm, corporation or association, or any employee thereof with intent directly or indirectly to dispose of real or personal property or to perform services, professional or otherwise, or anything of any nature whatsoever or to induce the public to enter into any obligation relating thereto, to make or disseminate or cause to be made or disseminated before the public in this state, or to make or disseminate or cause to be made or disseminated from this state before the public in any state, in any newspaper or other publication, or any advertising device, or by public outcry or proclamation, or in any other manner or means

(Cont'd)

Appendix B

733 F.Supp. 1371, 1380-81 (N.D.Cal. 1989) (claim under § 17500 and California common law false advertising require analysis of the same factors). Since false advertising under § 17500 and California common law does not pertain to intellectual property rights, the Court finds that the immunity provided under the CDA for Perfect 10's false advertising claim is not excluded under § 230(e)(2).

2. *Knowledge*

Perfect 10 argues that the CDA does not apply to its claims against the Defendants because the Defendants knew or should have known of the infringements on their affiliate websites. Accordingly, Perfect 10 argues that under *Batzel v. Smith*, 333 F.3d 1018 (9th Cir. 2003), the Defendants are not

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(Cont'd)

> whatever, including over the Internet, any statement, concerning that real or personal property or those services, professional or otherwise, or concerning any circumstance or matter of fact connected with the proposed performance or disposition thereof, which is untrue or misleading, and which is known, or which by the exercise of reasonable care should be known, to be untrue or misleading, or for any person, firm, or corporation to so make or disseminate or cause to be so made or disseminated any such statement as part of a plan or scheme with the intent not to sell that personal property or those services, professional or otherwise, so advertised at the price stated therein, or as so advertised. Any violation of the provisions of this section is a misdemeanor punishable by imprisonment in the county jail not exceeding six months, or by a fine not exceeding two thousand five hundred dollars ($ 2,500), or by both that imprisonment and fine.

entitled to CDA immunity. *Batzel*, however, creates no such knowledge exception. Batzel stands for the unrelated proposition that internet service providers are not provided immunity if they know or should have known that the content was not meant for publication.

In *Batzel*, one defendant, Cremers, published listserve newsletters about museum security and stolen art based partly on e-mails from third parties. *See id.* at 1021. Defendant Smith sent Cremers an e-mail alleging that Batzel was in possession of stolen art. *See id.* Cremers published Smith's e-mail on his listserve newsletter. *See id.* at 1022. In considering whether Cremers was protected by the CDA, the Court looked at whether Smith had "provided" Cremers with the e-mail as required by section 230(c)(1). "If the defamatory information is not '*provided* by another information content provider,' then § 230(c) does not confer immunity on the publisher of the information." *Id.* at 1032 (emphasis in original). The Court found that it was not the intent of Congress to create immunity for the intentional posting of material never meant to be put on the Internet. *See id.* at 1033. It was in this context that the Court stated that immunity only applies when the "third person or entity that created or developed the information in question furnished it to the provider or user under circumstances in which a reasonable person in the position of the service provider or user would conclude that the information was provided for publication on the Internet or other 'interactive computer service.' " *Id.* at 1034. In other words, in *Batzel*, the focus on the applicability of immunity under § 230(c)(1) is on the service provider's or user's reasonable perception

that the information was provided for publication on an interactive computer service. *See id.* at 1032-34.

In this case, it is clear that any content on the Defendants' affiliate websites was provided for publication on the Internet. Perfect 10 contends that the focus should be on whether Perfect 10 provided the material for publication by the affiliate webmasters. Based on this argument, an interactive computer service would be required to determine whether the information content provider intended the content to be published in a particular forum. This was not the focus of the Ninth Circuit in *Batzel.* Rather the Court withdrew protection only for those internet service providers who would publish on the Internet *private* communications the provider knew or had reason to know were never intended to be published at all. All of the images owned by Perfect 10 were intended to be published and they are indeed published on Perfect 10's own website. *See, e.g.*, I Zadeh Decl. at ¶ 17. None of the evidence provided by Perfect 10 creates a genuine issue of material fact as to whether the images on the Defendants' affiliate websites were intended to be private and unpublished. Therefore *Batzel* is inapposite and does not preclude the application of CDA immunities to Perfect 10's Claim 6 for unfair competition under the UCL and Claim 7 for false advertising.

3. *Distributor*

Perfect 10 also contends that the CDA's immunity cannot protect the Defendants because the CDA does not cover distributors. Every published case that has considered the issue has held that the CDA immunizes distributor liability

as well as publisher liability. *See, e.g., Zeran v. America Online, Inc.*, 129 F.3d 327, 331-32 (4th Cir. 1997); *Ben Ezra, Weinstein & Co. v. America Online, Inc.*, 206 F.3d 980, 986 (10th Cir. 2000).[28] Therefore, even if the Defendants are considered distributors rather than publishers, the CDA immunities would still apply to Perfect 10's Claim 6 for unfair competition under the UCL and Claim 7 for false advertising.

4. *Legislative Purpose*

Perfect 10's final contention is that the legislative purpose of the CDA is to protect minors from harmful material on the Internet and the Defendants aid in the distribution of offensive and obscene content and should therefore not be able to shield themselves from liability based on the CDA. However, the immunity conferred by the CDA does not depend on the content of the information provided. Furthermore, the portion of the CDA that attempted to regulate indecency on the Internet based on content was deemed unconstitutional. *See Reno v. American Civil Liberties Union*, 521 U.S. 844, 885, 117 S.Ct. 2329, 138 L.Ed.2d 874 (1997). Therefore, this argument is without merit.

Based on the foregoing, the Court finds that Perfect 10 has not raised a genuine issue of material fact that Perfect

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28. Perfect 10 relies heavily on *Barrett v. Rosenthal*, formerly published as 114 Cal.App.4th 1379, 9 Cal.Rptr.3d 142 (2004), *review granted* April 14, 2004, S122953. Since the California Supreme Court has granted review of this case, *Barrett* may not be relied on as precedent. Cal. State Rules of Court 976(d) & 977(a).

10's claims against the Defendants for 1) unfair competition under the UCL and 2) false advertising pursuant to California Business & Professions Code §§ 17200 and the common law are not barred by the CDA. Therefore, the Court GRANTS the Defendants summary judgment on Claim 6 for unfair competition under the UCL and Claim 7 for false and misleading advertising.[29]

V. CONCLUSION

Based on the foregoing, the Court hereby ORDERS as follows:

A. *Defendant IBill's Motion for Summary Judgment*

Defendant IBill's motion for summary judgment is GRANTED, in part, and DENIED, in part. The Court:

> 1) GRANTS IBill's motion for summary judgment and finds that IBill is entitled to the safe harbor provision under § 512(a) on Claim 1 for copyright infringement and Claims 8 and 9 for RICO violations;
>
> 2) DENIES IBill's motion for summary judgment on Claim Four for wrongful use of a registered mark;

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29. The Court notes that Perfect 10's Claim 6 for unfair competition under 15 U.S.C. § 1125(a) of the Lanham Act is not affected by this ruling.

3) DENIES IBill's motion for summary judgment on Claim Five for violation of rights of publicity;

4) GRANTS IBill's motion for summary judgment on Claim Six for unfair competition under the UCL; and

5) GRANTS IBill's motion for summary judgment on Claim Seven for false and misleading advertising.

B. *Defendant Internet Key's Motion for Summary Judgment*

Defendant Internet Key's Motion for summary judgment is GRANTED, in part, and DENIED, in part. The Court:

1) GRANTS Internet Key's motion for summary judgment and finds that Internet Key is entitled to the safe harbor provision under §§ 512(a) and 512(d) on Claim 1 for copyright infringement and Claims 8 and 9 for RICO violations for infringements after August 21, 2002;

2) DENIES Internet Key's motion for summary judgment and finds that Internet Key is not entitled to the safe harbor provisions under §§ 512(a) and 512(d) on Claim 1 for copyright infringement and Claims 8 and 9 for RICO violations for infringements before August 21, 2002;

3) DENIES Internet Key's motion for summary judgment on Claim Five for violation of rights of publicity;

4) GRANTS Internet Key's motion for summary judgment on Claim Six for unfair competition under the UCL; and

5) GRANTS Internet Key's motion for summary judgment on Claim Seven for false and misleading advertising.

C. *Defendant CWIE's Motion for Summary Judgment*

Defendant CWIE's motion for summary judgment is GRANTED, in part, and DENIED, in part. The Court:

1) GRANTS CWIE's motion for summary judgment and finds that CWIE is entitled to the safe harbor provision under § 512(c) on Claim 1 for copyright infringement and Claims 8 and 9 for RICO violations;

2) DENIES CWIE's motion for summary judgment on Claim Four for wrongful use of a registered mark;

3) DENIES CWIE's motion for summary judgment on Claim Five for violation of rights of publicity;

4) GRANTS CWIE's motion for summary judgment on Claim Six for unfair competition under the UCL; and

5) GRANTS CWIE's motion for summary judgment on Claim Seven for false and misleading advertising.

D. *CCBill's Motion for Summary Judgment*

Defendant CCBill's motion for summary judgment is GRANTED, in part, and DENIED, in part. The Court:

1) GRANTS CCBill's motion for summary judgment and finds that CCBill is entitled to the safe harbor provision under § 512(a) against Perfect 10's Claim 1 for copyright infringement and Claims 8 and 9 for RICO violations;

2) DENIES CCBill's motion for summary judgment of Claim Four for wrongful use of a registered mark;

3) DENIES CCBill's motion for summary judgment of Claim Five for violation of rights of publicity;

4) GRANTS CCBill's motion for summary judgment of Claim Six for unfair competition under the UCL; and

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5) GRANTS CCBill's motion for summary judgment of Claim Seven for false and misleading advertising.

IT IS SO ORDERED.

APPENDIX C — ORDER OF THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT AMENDING OPINION AND DENYING PETITION FOR REHEARING, FILED MAY 31, 2007

UNITED STATES COURT OF APPEALS
NINTH CIRCUIT

Nos. 04-57143, 04-57207.

PERFECT 10, INC., a California corporation,

Plaintiff-Appellant,

v.

CCBILL LLC, a corporation; Cavecreek Wholesale Internet Exchange, a corporation d/b/a CWIE LLC,

Defendants-Appellees,

and

Netpass Systems Inc., a corporation,

Defendant.

Perfect 10, Inc., a California corporation,

Plaintiff-Appellee,

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v.

CCBill LLC, a corporation; Cavecreek Wholesale Internet Exchange, a corporation d/b/a CWIE LLC,

Defendants-Appellants,

Netpass Systems Inc., a corporation,

Defendant.

Before: STEPHEN REINHARDT, ALEX KOZINSKI, MILAN D. SMITH, JR., Circuit Judges.

ORDER

The opinion filed on March 29, 2007, is amended as follows:

On slip opinion page 3577, line 33, after "federal intellectual property." insert the following footnote:

> In its petition for rehearing, Perfect 10 claims that our decision on this point conflicts with *Universal Communication Systems, Inc. v. Lycos, Inc.*, 478 F.3d 413 (1st Cir. 2007). But neither party in that case raised the question of whether state law counts as "intellectual property" for purposes of § 230 and the court seems to simply have assumed that it does. We thus create no conflict with *Universal Communication.*
>
> We note that *Universal Communication* demonstrates the difficulties inherent in allowing

state laws to count as intellectual property for CDA purposes. In that case, the district court struggled with the question of whether the "trademark dilution" claim brought under Florida Law counted as intellectual property for purposes of the CDA, and concluded that it was more like a defamation claim than a trademark claim. *Id.* at 423 n.7. Rather than decide how to draw the line between defamation and trademark, the First Circuit held that "because of the serious First Amendment issues that would be raised" if Lycos were found liable, defendant had not violated the Florida statute. *Id.* at 423.

The First Circuit was able to sidestep the question of what counted as intellectual property on First Amendment grounds. But we cannot do so here. States have any number of laws that could be characterized as intellectual property laws, trademark, unfair competition, dilution, right of publicity and trade defamation, to name just a few. Because such laws vary widely from state to state, no litigant will know if he is entitled to immunity for a state claim until a court decides the legal issue. And, of course, defendants that are otherwise entitled to CDA immunity will usually be subject to the law of numerous states. An entity otherwise entitled to § 230 immunity would thus be forced to bear the costs of litigation under a wide variety of state statutes that could arguably be classified as "intellectual property." As a practical matter, inclusion of rights protected by

> state law within the "intellectual property" exemption would fatally undermine the broad grant of immunity provided by the CDA.

With this amendment, the panel has voted to deny the petition for rehearing and petition for rehearing en banc.

The full court has been advised of the petition for rehearing en banc, and no judge of the court has requested a vote on it. The petition for rehearing and petition for rehearing en banc are DENIED. No further petitions for rehearing may be filed.

* * * *

APPENDIX D — SECTION 230 OF THE COMMUNICATIONS DECENCY ACT, 47 U.S.C. § 230

§ 230. Protection for private blocking and screening of offensive material

(a) Findings

The Congress finds the following:

(1) The rapidly developing array of Internet and other interactive computer services available to individual Americans represent an extraordinary advance in the availability of educational and informational resources to our citizens.

(2) These services offer users a great degree of control over the information that they receive, as well as the potential for even greater control in the future as technology develops.

(3) The Internet and other interactive computer services offer a forum for a true diversity of political discourse, unique opportunities for cultural development, and myriad avenues for intellectual activity.

(4) The Internet and other interactive computer services have flourished, to the benefit of all Americans, with a minimum of government regulation.

(5) Increasingly Americans are relying on interactive media for a variety of political, educational, cultural, and entertainment services.

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(b) Policy

It is the policy of the United States—

(1) to promote the continued development of the Internet and other interactive computer services and other interactive media;

(2) to preserve the vibrant and competitive free market that presently exists for the Internet and other interactive computer services, unfettered by Federal or State regulation;

(3) to encourage the development of technologies which maximize user control over what information is received by individuals, families, and schools who use the Internet and other interactive computer services;

(4) to remove disincentives for the development and utilization of blocking and filtering technologies that empower parents to restrict their children's access to objectionable or inappropriate online material; and

(5) to ensure vigorous enforcement of Federal criminal laws to deter and punish trafficking in obscenity, stalking, and harassment by means of computer.

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(c) Protection for "good samaritan" blocking and screening of offensive material

(1) Treatment of publisher or speaker

No provider or user of an interactive computer service shall be treated as the publisher or speaker of any information provided by another information content provider.

(2) Civil liability

No provider or user of an interactive computer service shall be held liable on account of—

(A) any action voluntarily taken in good faith to restrict access to or availability of material that the provider or user considers to be obscene, lewd, lascivious, filthy, excessively violent, harassing, or otherwise objectionable, whether or not such material is constitutionally protected; or

(B) any action taken to enable or make available to information content providers or others the technical means to restrict access to material described in paragraph (1).

(d) Obligations of interactive computer service

A provider of interactive computer service shall, at the time of entering an agreement with a customer for the provision of interactive computer service and in a manner deemed appropriate by the provider, notify such customer that parental control protections (such as computer hardware, software, or filtering services) are commercially available

that may assist the customer in limiting access to material that is harmful to minors. Such notice shall identify, or provide the customer with access to information identifying, current providers of such protections.

(e) Effect on other laws

(1) No effect on criminal law

Nothing in this section shall be construed to impair the enforcement of *section 223* or *231* of this title, chapter 71 (relating to obscenity) or 110 (relating to sexual exploitation of children) of Title 18, or any other Federal criminal statute.

(2) No effect on intellectual property law

Nothing in this section shall be construed to limit or expand any law pertaining to intellectual property.

(3) State law

Nothing in this section shall be construed to prevent any State from enforcing any State law that is consistent with this section. No cause of action may be brought and no liability may be imposed under any State or local law that is inconsistent with this section.

(4) No effect on Communications Privacy law

Nothing in this section shall be construed to limit the application of the Electronic Communications Privacy Act of 1986 or any of the amendments made by such Act, or any similar State law.

Appendix D

(f) Definitions

As used in this section:

(1) Internet

The term "Internet" means the international computer network of both Federal and non-Federal interoperable packet switched data networks.

(2) Interactive computer service

The term "interactive computer service" means any information service, system, or access software provider that provides or enables computer access by multiple users to a computer server, including specifically a service or system that provides access to the Internet and such systems operated or services offered by libraries or educational institutions.

(3) Information content provider

The term "information content provider" means any person or entity that is responsible, in whole or in part, for the creation or development of information provided through the Internet or any other interactive computer service.

(4) Access software provider

The term "access software provider" means a provider of software (including client or server software), or enabling tools that do any one or more of the following:

(A) filter, screen, allow, or disallow content;

(B) pick, choose, analyze, or digest content; or

(C) transmit, receive, display, forward, cache, search, subset, organize, reorganize, or translate content.